

SCIENCE AND TECHNOLOGY COMMITTEE

Second Report

THE GLAXO BID FOR WELLCOME PLC

Report, together with the
Proceedings of the Committee,
Minutes of Evidence and Memoranda

*Ordered by The House of Commons to be printed
8th March 1995*

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**Second Report from the Science and Technology Committee Session 1994-95.
The Glaxo Bid for Wellcome PLC**

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CORRECTION

Page 1, at end of page insert

- Glaxo Wellcome will bring together a unique concentration of leading edge scientific and technological skills, allowing important synergies to emerge.
- The enlarged group will have the skills and resources to make the best use of the new field of combinatorial chemistry, high throughput screening and modern computerised technology, which provide the capacity to screen large numbers of molecules quickly.

Glaxo Wellcome will provide unrivalled opportunities for talented scientists.

- Glaxo's deep commitment to science is demonstrated by its record of investment in R&D and exemplified by the new £700 million Medicines Research Centre at Stevenage.
- There will be outstanding opportunities for scientists within the world's largest pharmaceutical company, created from two companies with strong research bases.

Glaxo Wellcome will enhance the UK's science base by supporting and promoting the wider world of academic and clinical research.

- Glaxo's record in this regard is second to none. For example, within the last 18 months Glaxo has launched the "*action th*" project, committing £10 million to a 5 year basic research collaboration with several leading UK scientific institutions; it has also committed funding of £40 million over 10 years towards the establishment of the Edward Jenner Institute for Vaccines Research.
- Glaxo has made major contributions over the last eight years in support of university infrastructure. Eight professorships have been endowed in British universities at a cost of over £6 million, with a further £2 million in grants to support their research; in addition, Glaxo has given £2.8 million to create new research Fellowships and junior academic posts in the UK. Over the last 2 years, awards totalling over £1.25 million have been made to academic institutions for the provision of new buildings and facilities.
- Investment in training and post-doctoral support programmes will continue at a high level. Currently Glaxo is spending over £2 million p.a. to support 250 PhD students in UK universities; £5.6 million p.a. on more than 150 post doctoral project grants; and nearly £300,000 p.a. to support a further 10 PhD students and 8 post doctoral fellows at Glaxo's Institute of Applied Pharmacology, a collaboration with Cambridge University.
- The science base will benefit from the additional research funding expected to be provided by the Wellcome Trust following the sale of its Wellcome shares.

The combination of Glaxo and Wellcome to form the world's leading pharmaceutical company is a logical response to the rapidly changing external environment. It will create a firm foundation from which to identify and realise new opportunities; and, crucially for this Committee, it offers real benefits for science and research in the UK.

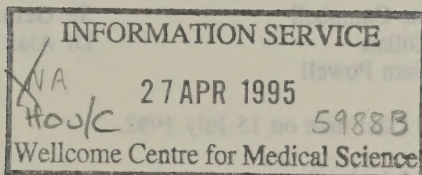
April 1995
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SCIENCE AND TECHNOLOGY COMMITTEE

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THE GLAXO BID FOR WELLCOME PLC

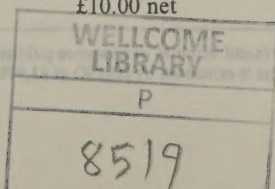


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The Science and Technology Committee is appointed under Standing Order No 130 to examine the expenditure, administration and policy of the Office of Science and Technology and associated public bodies.

The Committee consists of 11 Members. It has a quorum of three. Unless the House otherwise orders, all Members nominated to the Committee continue to be members of it for the remainder of the Parliament.

The Committee has power:

- (a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;
- (b) to appoint specialist advisers either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference;
- (c) to communicate to any other such committee and to the Committee of Public Accounts its evidence and any other documents relating to matters of common interest; and
- (d) to meet concurrently with any other such committee for the purposes of deliberating, taking evidence, or considering draft reports.

The following were nominated Members of the Committee on 13 July 1992:

Mr Spencer Batiste	Sir Giles Shaw
Dr Jeremy Bray	Sir Trevor Skeet
Mr Malcolm Bruce	Dr Gavin Strang
Mrs Anne Campbell	Sir Gerard Vaughan
Cheryl Gillan	Dr Alan W Williams
Mr William Powell	

Sir Giles Shaw was elected Chairman on 15 July 1992.

On 9 November 1992 Mr Malcolm Bruce was discharged and Mr Andrew Miller added to the Committee

On 16 November 1992 Dr Gavin Strang was discharged and Dr Lynne Jones added to the Committee.

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SECOND REPORT

THE GLAXO BID FOR WELLCOME PLC

The Science and Technology Committee has agreed to the following Report:

1. On 23rd January it was announced that Glaxo, which makes the greatest investment in research and development of any company in the United Kingdom, was bidding for Wellcome plc which invests an even higher proportion of its sales in R&D, although it has a lower absolute expenditure.¹ We considered that such a takeover could have a significant effect on the United Kingdom's research and technology base. Not only did it appear possible that the proposed takeover would affect the research conducted by the companies involved, but the Wellcome Trust, which holds 39.5 per cent of the shares of Wellcome plc, is a major funder of basic medical research. We took evidence from Sir Richard Sykes, the Deputy Chairman and Chief Executive, and Dr Barry Ross of Glaxo, Dr Julian Jack, Chairman of the Scientific Committee of the Wellcome Trust and Mr John Robb, Chairman and Chief Executive, and Dr David Barry of Wellcome plc on 22nd February 1995 in order to explore these issues before the offer closed on 8th March. Both Glaxo and Wellcome plc also submitted written evidence, although the Wellcome Trust did not.² We placed a corrected copy of the transcript of this meeting in the Library of the House on 28th February 1995, together with the written evidence we had received. We are grateful to our witnesses who gave evidence so promptly, and to the Parliamentary Office of Science and Technology which provided valuable background briefing.³

2. On Sunday 22nd January 1995 Glaxo offered to purchase the shares held by the Wellcome Trust in Wellcome plc for £10.25 per share.⁴ The Trust's agreement to sell its shareholding, if given permission by the High Court to do so, was announced the following morning and John Robb, the Chairman of Wellcome plc, was told of this decision some fifteen minutes before the announcement was made.⁵ The Board of Wellcome plc subsequently met and decided unanimously that, as Mr Robb told us, the only course of action open

“was to pursue selling the business to, what we felt, was a more appropriate buyer...Secondly, we felt we had to test the market place to make sure that we were discharging our responsibilities as directors of the company to maximise shareholder value. The price of £10.25 might or might not be the maximum price that the company is worth.”⁶

3. We wished to know why the Wellcome Trust had decided to sell its holding on these terms. Under the terms of Sir Henry Wellcome's will the Trust was the sole shareholder in Wellcome plc and had obligations both to the charity it funded and to the company.⁷ However, in 1986 the Trust successfully applied to the High Court for permission to sell part of its stake in Wellcome plc. At that time the Trust was told “that [it] had to act as a prudent man of business ... in looking after and securing the long-term future of the charity. That long-term future included ... the future of the company in which [it had] a principal asset.”⁸ The Trust made a second such application to reduce its shareholding in Wellcome plc in 1992.

¹ Company Reporting: UK R&D Scoreboard 1994, published by the Financial Times, June 1994, p4.

² The written evidence was submitted by the Wellcome Foundation Ltd, but for ease of reference all citations in the text are to the parent company, Wellcome plc.

³ Parliamentary Office of Science and Technology, Glaxo and Wellcome, February 1995.

⁴ Q71. The final offer is £722 in cash and 47 new Glaxo shares for every 100 Wellcome shares, valuing each Wellcome share at 1044p. (Glaxo: Final Offer for Wellcome plc).

⁵ Q86

⁶ Q71

⁷ Sir Henry Wellcome died in 1936.

⁸ Q55

Dr Julian Jack told us that when the Trust obtained the court's permission to sell shares in Wellcome plc in 1992

"it was clear, and Wellcome plc agreed, that we had an overwhelming fiduciary duty to look after the charity and that was our prime concern, and therefore it was acknowledged by the company that of course if an overwhelmingly attractive financial offer came we would have to accept it."⁹

When the Glaxo offer was made "the kind of advice we were given was that... we would be behaving virtually illegally if we did not accept this."¹⁰ The Wellcome Trust returned to the High Court to request permission to dispose of its entire shareholding in Wellcome plc to Glaxo, which it obtained on Friday 17th February 1995.

4. In 1992 the Trust "had agreed with the company that we would not solicit" a takeover, and Dr Jack was adamant that the Trust had not solicited the bid from Glaxo.¹¹ However, the Trustees had previously "collected and received information... from our financial advisors just in case a bid came in from a large number of companies" to determine which company might be best matched to Wellcome plc, although Dr Jack made it clear that the Trust's advisors believed it would be a breach of the Trustees' fiduciary duty to accept anything other than the highest bid available.¹² We were concerned that such information gathering might have led to the belief that Wellcome might be for sale. Dr Jack assured us that

"It was done confidentially. The sort of information with which we were presented, which was entirely confidential financial advice to us, was of course all public information."¹³

We were not in a position to determine whether the Trust's precautions in advance of any bid were taken as preparation to receive a bid. However we are concerned at the Trust's lack of consultation with the Wellcome Board and regret that the Trust's view of its fiduciary duty has led to one of the United Kingdom's leading companies having had little option but to accept that its existence as an independent concern was effectively over. Since then there have been reports that another company has been deterred from making a higher bid for Wellcome plc since it could obtain no undertaking that the Trust would not accept a counter-offer from Glaxo.¹⁴

5. The proposed takeover will undoubtedly have effects on the research base of the United Kingdom if it proceeds. It is relatively easy to assess its effect on the research capability of the Wellcome Trust. The Trust already spends some £250 million a year on medical research; the proceeds from the sale of Wellcome plc would increase its income by nearly 25 per cent.¹⁵ As a comparison, the total income of the Medical Research Council in 1993-94 was some £290 million.¹⁶ Although Dr Jack told us the Trust had not had time to discuss what would be done with the estimated £50 million a year that the sale would generate he had "absolutely no doubt that we will decide to invest that money in medical research"¹⁷. He later indicated that such an amount could result in the support of some 1,000 scientists, although it would take time and investment in training before this came about.¹⁸

6. It is less clear how the companies directly concerned will be affected. The current product lines of the two companies do not overlap, and there is very little duplication in the

⁹Q49

¹⁰Q45

¹¹Q49, Q67

¹²Q55

¹³Q70

¹⁴Financial Times, Wednesday 8th March 1995, p.26.

¹⁵Q56

¹⁶Parliamentary Office of Science and Technology, Glaxo and Wellcome, February 1995. MRC Annual Report, April 1993-March 1994, p58.

¹⁷Q56

¹⁸Q65

research each company currently has in its "pipeline"¹⁹. Moreover, even where teams in both companies are working on the same general areas, such as cardiovascular disease, as Sir Richard Sykes told us

"it will be very unusual if they were working directly on similar programmes. The important thing will be to evaluate the programmes which are running ... "Are they good programmes which will lead to better medicines?" If they are, that is exactly what our business is about, supporting our research programmes and bringing drugs out of those programmes to the market."²⁰

7. However, there were indications that considerable reduction in research could be expected. Mr Robb claimed that the bid was reliant on cost synergies and that the redundancies envisaged "could be of the order of 10 or 15,000"²¹; he doubted whether it was realistic to assume that all the redundancies could come from areas other than research and development.²² Although Sir Richard Sykes would not be drawn on whether the merged company could expect to devote the same high proportion of its turnover to research as Glaxo and Wellcome currently did²³, he also told us "We have to recognise that an industry which has been spending 15 per cent. of its turnover every year in research and development ... may no longer be sustainable."²⁴ While Sir Richard maintained "We are not interested in getting rid of good research people" and drew attention to areas in which rationalisations could be made without cutting research, such as Information Technology, he did not deny that some researchers might be made redundant.²⁵ Nonetheless he hoped that "if we are successful ... in creating this new enhanced company, there could well be big opportunities for jobs in the future."²⁶

8. In written evidence Wellcome plc said "Brokers' analysts expect that, if the bid is successful, Glaxo will seek to reduce the annual combined R&D expenditure by between £300 million and £400 million by the end of the decade, i.e. more than the total of Wellcome's current annual R&D budget."²⁷ We expect that, in the short term at least, there will be substantial reduction in the research conducted in Glaxo—Wellcome by comparison with that conducted in its parent companies.

9. The research and development conducted by pharmaceutical companies, and by medical research charities such as the Wellcome Trust, is not, of course, an end in itself. It exists to provide remedies for diseases and disorders, and to sustain the companies which undertake it. It is in this context that changes in expenditure on research must be judged.

10. As far as the Wellcome Trust is concerned, there have been criticisms that, while it has been an outstanding supporter of basic research, it has perhaps been less impressive in ensuring that the research which it supports is subsequently developed.²⁸ We were accordingly pleased to learn that the Trust is taking steps to form an alliance to create its own technology transfer company and was seeking permission from the Charity Commissioners to devote resources "to help protect that science and stop it from being buried".²⁹ If the Trust is successful in building up its technology transfer activities we have no doubt that an increase in its resources will lead both to an increase in the basic research conducted in the United Kingdom and in the application of that research.

¹⁹Q80

²⁰Q35

²¹Q75

²²Q76

²³Q13

²⁴Q1

²⁵QQ3,11,34,37

²⁶Q3

²⁷Ev. p.15.

²⁸See "Nature", 2 March 1995 Vol. 374, p6.

²⁹Q60

11. The benefits and disadvantages of a merger between Glaxo and Wellcome are less easy to assess. Mr Robb described the bid as being "long on cost efficiencies and short on business building activities"³⁰ and said Wellcome plc was looking for a "more appropriate partner"... "somebody who can bring revenue synergies as well as cost synergies."³¹ In his view

"there will be job losses ... and ... the job losses have to fall on R&D, just as manufacturing, selling and marketing ... in all my years, either on the fringe of the pharmaceutical industry or in it, I have always found it very difficult to argue that there would be more productivity, more new medicines coming through from fewer scientists."³²

12. In contrast, Sir Richard Sykes presented a merger between Glaxo and Wellcome to produce the world's largest research led pharmaceutical company as a prudent response to dramatic changes in the market for pharmaceutical products caused by increasing pressure on health care costs.³³ He believed that consolidation was taking place within the highly fragmented industry and that it was no longer possible to increase market share by organic growth:

"a merger of this type is essential to take us to what amounts to a meagre 5.3 per cent. of the market, but at least a bigger market, for the investment on research and development that will be needed to support that marketplace in the future."³⁴

13. As Sir Richard Sykes told us, and others have told us before, "an industry like Glaxo—Wellcome is very dependent on its science base"³⁵; the strength of British basic research in biology and medical sciences contributes to the strength of the country's pharmaceutical industry. Industry is footloose; both Glaxo and Wellcome base slightly more than 50 per cent. of their research activities outside the United Kingdom even now.³⁶ If the United Kingdom pharmaceutical industry is to remain strong, and to retain a significant base in this country, our basic research must continue to be among the best in the world. The increased resources available to the Wellcome Trust are likely to contribute to keeping it so. What only time will show, however, is whether a merged Glaxo—Wellcome will be as strong a company as Sir Richard Sykes predicts. Dr Barry, the Director of Research Development and Medical Affairs of Wellcome plc, felt that although a takeover would generate extra funds for the Wellcome Trust, Glaxo would need to obtain savings of between £500 million and £1000 million in synergies between the two companies. Some of those savings were likely to come from research. He suggested that the reduction in the companies' research expenditure could far outweigh the Trust's increased resources:

"You would be adding, at most, £50 million of research, and whatever portion of that £500 to £1,000 million was research, any bit of it that was over £50 million would necessarily decrease the scientific investment that the entire transaction would involve."³⁷

In written evidence, Wellcome plc estimated that job losses from R&D in a combined Glaxo—Wellcome would amount to between 3,200 and 4,300 people overall — perhaps up to 2,100 in the United Kingdom. Both Wellcome plc and the Wellcome Trust agreed that the new resources available to the Trust would enable it to support about 1,000 researchers. The merger will mean increased investment in basic research by the Wellcome Trust. But there will be a substantial net loss in Britain's research effort in pharmaceuticals and fewer scientists will mean fewer drugs. The combined company Glaxo—Wellcome should however

³⁰Q71

³¹Q82

³²Q72

³³Q1

³⁴Q4

³⁵Q23

³⁶Q82

³⁷Q72

be leaner and fitter and better able to compete in the world's pharmaceutical markets. The pharmaceutical industry, as a leading research based industry, will always be of interest to us. We will follow the fortunes of a combined Glaxo—Wellcome company on the world's markets.

PROCEEDINGS OF THE COMMITTEE
RELATING TO THE REPORT

WEDNESDAY, 8 MARCH 1995

Members present:

Sir Giles Shaw, in the Chair

Mr Spencer Batiste
Dr Jeremy Bray
Mrs Anne Campbell
Cheryl Gillan
Dr Lynne Jones

Mr Andrew Miller
Mr William Powell
Sir Gerard Vaughan
Dr Alan W Williams

The Committee deliberated.

Draft Report (The Glaxo Bid for Wellcome plc) proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 3 read and agreed to.

Paragraph 4 read, amended, and agreed to.

Paragraphs 5 to 12 read and agreed to.

Paragraph 13 read, amended, and agreed to.

Resolved, That the Report, as amended, be the Second Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

[Adjourned till Wednesday 15th March at Four o'clock.]

MINUTES OF EVIDENCE

TAKEN BEFORE THE SCIENCE AND TECHNOLOGY COMMITTEE

WEDNESDAY 22 FEBRUARY 1995

Members present:

Sir Giles Shaw, in the Chair

Mr Spencer Batiste
Dr Jeremy Bray
Mrs Anne Campbell
Cheryl Gillan
Dr Lynne Jones

Mr Andrew Miller
Mr William Powell
Sir Trevor Skeet
Sir Gerard Vaughan
Dr Alan Williams

Memorandum from Glaxo plc

GLAXO WELLCOME

The objective of the proposed merger between Glaxo plc and Wellcome plc is to create a research-based, science-driven British company capable of leading the world pharmaceutical industry in a rapidly changing business and scientific environment. Glaxo's view is that facing up to the challenges of increasing competition and biotechnological advance requires both proven skills in research and development and the scale, facilities and resources necessary to sustain successful product innovation and market penetration worldwide. Among the key factors for success in the future will be a strong position in a global industry which is already restructuring and consolidating; critical mass in research and development, with sustainable pursuit of innovation; effective cost management and optimal use of resources; and continuing investment in new technologies to accelerate the discovery and marketing of safe and effective new medicines.

Further restructuring of the industry is inescapable. Wellcome have acknowledged that the status quo is no longer an option. The alternative to a merger with Glaxo could be takeover by a foreign competitor with no commitment to Britain's economic and scientific interests. By contrast, the creation of Glaxo Wellcome as a UK-based world leader in pharmaceuticals will benefit the stakeholders of both Glaxo and Wellcome, and enhance the science base, to the benefit of the UK as a whole, for the following reasons;

Glaxo and Wellcome are natural partners

- Glaxo and Wellcome share a common culture of high quality and strong traditions of science-based research.
- Glaxo and Wellcome have well developed and complementary research bases.

Glaxo and Wellcome will benefit from joining forces

- The enlarged group will have critical mass in research and development, enabling it to invest in new research strategies and in state of the art facilities.
- Significant efficiency improvements will accrue from more focused investment and from the elimination of unproductive duplication of research effort.
- Wellcome's research strengths, especially in anti-virals, will be further enhanced by access to Glaxo's cellular biology and molecular genetic skills.
- Glaxo's proven development efficiency should shorten lead times in bringing Wellcome's new compounds to the market.

Glaxo Wellcome will improve the prospects of creating and discovering new medicines

- The enlarged group will enjoy access to a wider spectrum of therapeutic targets together with a compound collection of greater molecular diversity.

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[Continued]

Examination of Witnesses

SIR RICHARD SYKES, Deputy Chairman and Chief Executive, Glaxo Plc, and DR BARRY ROSS, Research Director, Glaxo Research and Development Limited, examined.

Chairman

1. Sir Richard, the thanks of the Committee go to you and your colleague and to others whom we shall see this afternoon in very great measure because we know this is a very special time and we know that it is constrained obviously by the requirements of Stock Exchange rules and stockholders and so on, and you have issued certain documents and we have been the recipient of those. So we will endeavour to aim our questions on issues which we think are crucial to science and research. It is, of course, in that capacity that this Committee was set up originally and, indeed, in the main to monitor public funding of research, but we consider that the consequences of what is proposed are of such national significance in research terms that we felt it reasonable to invite you and you were generous enough to respond. If I might ask the first question, I take it from the letter which you kindly wrote to me on 14 February, in which you said: "As I understand it, the primary focus of your Committee's deliberation is the effect on pharmaceutical research in Britain of the offer which we are making to Wellcome Plc. I am more than happy to answer questions from the Committee on this subject. I firmly believe that the combination of the research efforts of our Group with that of Wellcome will be positive for the future of British research and development and I am determined to make it so." I think we would like to know in what respects do you think you will be able to make the changes, and the positive changes, to which you have set your hand?

(*Sir Richard Sykes*) Thank you. I would just like to say at the outset, of course, as a scientist myself I am strongly committed to the science base in the United Kingdom and I believe that this new company, Glaxo Wellcome, a British-based, science-led, world leader in pharmaceuticals, will be a very positive development for science in this country. Why do I believe that? Because the whole pharmaceutical industry is going through a revolution, not just the industry itself but science is also going through a revolution, a biological revolution and a technological revolution. We have to recognise that an industry that has been spending 15 per cent. of its turnover every year in research and development with maximum market shares of around 3 to 4 per cent. may no longer be sustainable when that marketplace has changed dramatically. It has changed dramatically simply because it is no longer a protected marketplace. It used to be a producer-driven environment; it is now a purchaser-driven environment. We are no different from any other competitive industry in a competitive marketplace, and to be competitive in that global marketplace we now have to make sure that we are running an efficient and effective operation. So bringing these two companies together to create a British-based research-led world leader in pharmaceuticals, we must make sure we have the sustainability in research and development to create the new medicines of the future. I could ask my colleague, Dr Ross, who is the

Group Director of Research, to comment on the changes that are taking place in the research environment.

(*Dr Ross*) Just to follow on from Sir Richard, I believe that the good drugs of the future are going to be directed to the causes of diseases rather than the symptoms of diseases. Sir Richard has already mentioned the tremendous revolution that is taking place in biology and what this is giving us is new insights into the causes of disease. It is still an enormous challenge, however, to turn those insights into medicines. Another challenge that we face as a company, as an industry, is the enormous competition which goes on in R&D. Many companies have very similar research programmes and from an industry perspective we believe that this is not the best use of those very valuable and costly resources. We think the company of the future will need to be able to mount very large teams, be able to attract the very best scientists and to motivate them, to use the best technologies, working in state-of-the-art facilities. That is why we believe that this merger is going to be so important. It will create, we hope, the world-leading research centre and it will be based in this country and that is why we believe it is good for British science.

Dr Bray

2. Sir Richard, in the memorandum submitted by the Wellcome Foundation to the Committee they estimate that the job losses in the combined group research and development will amount to some 3,200-4,300 overall, and of those, perhaps 2,100 will be in the United Kingdom. They also estimate that the possible increase in the number of researchers as a result of increased funding through the Wellcome Trust will not amount to more than 1,000 researchers and that will lead to an immediate net loss in the United Kingdom of 1,100. Would you care to comment on how that could increase research and development in the United Kingdom?

(*Sir Richard Sykes*) I would just like to say again that this merger is not being carried out for short-term gain or short-term loss; it is being carried out for the future.

3. I appreciate that but do you expect to achieve economies in the staffing of research and development on that scale?

(*Sir Richard Sykes*) As we bring these two companies together and as we construct a new way forward for the future, there will inevitably be job losses, but let me put that into perspective. Job losses are already taking place in this industry because this industry is having to restructure; it is having to restructure to cope with the new environment, the new opportunities that are presenting themselves. So in Glaxo today there are job losses going on, in Wellcome there are job losses. When we bring these two companies together there will inevitably be job losses, but let me make it clear, if we are successful in what we are trying to do here in creating this new

22 February 1995]

SIR RICHARD SYKES AND DR BARRY ROSS

[Continued]

[Dr Bray Cont]

enhanced company, there could well be big opportunities for jobs in the future.

Sir Trevor Skeet

4. Sir Richard, I would like to ask you two questions. In the past your company has built up a big cash mountain and it has grown by organic growth. Now you grow by acquisition. Why?

(Sir Richard Sykes) We grew by organic growth, as you quite rightly say, and did extremely well in the Eighties and early Nineties when the pharmaceutical industry was turning in a sales growth of double digits every year, when pricing was free in the United States and in most parts of Europe. That has changed dramatically. Now there is a pressure to change pricing, to push it down to its lowest level. There is no possibility to increase prices of new medicines, even in the United States, today other than at the level of RPI. That means that organic growth as we go forward is going to be much more difficult. As this industry consolidates and it takes more and more market share above the 2 or 3 per cent. that most companies have, we cannot hope to get from 3 to 4 to 5 per cent. by organic growth. It will be absolutely impossible in the present environment. That is why a merger of this type is essential to take us to what amounts to a meagre 5.3 per cent. of the market, but at least a bigger market, for the investment on research and development that will be needed to support that marketplace in the future.

5. Your loans are going to amount to £8.1 billion, your liabilities will far exceed your assets, your gearing is going to be enormous. Will this not have some impact on your research as a combined company?

(Sir Richard Sykes) The actual loans will be much less than that sir, because, of course, we have a lot of money in the bank that we will use to fund this merger, and so we will be talking around about £3 billion that we will be paying interest on at the end of the day. Obviously that money will have to be paid back. It will be paid back over a successful company. It will be paid back over time. As you know, what we have done in the past is accumulate our funds, as you so rightly pointed out earlier. Now we will be paying back that loan but that will have no impact on what is a long-term industry. We invest today for ten and 15 years in the future, not for tomorrow.

6. I do appreciate this. It will be paid back over time but over what period of time, because you want to continue with your high level of research and also you have other responsibilities to other people?

(Sir Richard Sykes) Yes, but I must assure you that that funding, that ability to pay money back, will be there in the new company. We would not be going forward with this merger if we did not believe that we could invest the amount of money required for research and development and pay off our loans at the same time.

7. Can you give us a timetable?

(Sir Richard Sykes) For paying back the loans?

8. Yes?

(Sir Richard Sykes) It certainly would be paid back within five or six years.

Dr Jones

9. The pharmaceutical industry has been a successful example, unusual in this country, of an industry that has taken the long-term view and part of that has been the relationship between the marketplace and what has been described in a *Daily Telegraph* article here as the "benign pricing agreements with the National Health Service," and you have referred now to changes in the market. Is that going to put pressures on you that are going to lead to more short-termism, to the pharmaceutical industry behaving more like other British industries that have been less successful; and your strategy to go for cost efficiencies rather than an expanding programme of research, is that really going in the long run to continue to ensure that the British pharmaceutical industry is a world leader?

(Sir Richard Sykes) Bringing these two companies together, I believe, will actually guarantee that we have a world leader in this country and that we maintain our world leadership in this industry. Will it mean short-termism? It actually means much more long-termism because it means that when we bring products to market in the future we are going to have to bring the products that add value to medicine, not just another incremental change but something that will significantly add value to medicine, because that is what is being asked of us today: "Where is the value in this product that you have brought to the market? How can you charge this price for this product?" Here is the value. There are many diseases that are at present inadequately treated. Modern biology, modern technology, is allowing us to understand the basic mechanisms of disease. We have the opportunity. If we put the power into understanding these diseases, we will crack those diseases. There is no question about that, none at all, but that means long-term investment that we are prepared to guarantee.

10. And research creativity?

(Sir Richard Sykes) And research creativity.

11. How is that going to be helped by the loss of researchers?

(Sir Richard Sykes) First of all, research creativity is extremely important in an environment that is creative for researchers to work in. We are not interested in getting rid of good research people. Research people are the bread and butter of this industry. They are the future success of this new company. Good researchers will always have a home in Glaxo Wellcome, I can assure you of that.

Chairman

12. Sir Richard, it might be said there are two world leader pharmaceutical companies already. You are proposing to make one.

(Sir Richard Sykes) There are many, many pharmaceutical companies in the world today. Glaxo are No. 1 in terms of a research-based pharmaceutical company, Wellcome are No. 20, most of the others are in the United States. If this consolidation that is going on in the industry drives Glaxo back into third or fourth position and Wellcome back into 25th or 30th position, we will start to lose our momentum in this industry and we

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[Continued]

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will start to lose the British-based pharmaceutical industry as a world leader.

Mrs Campbell

13. Sir Richard, I have the United Kingdom R&D Score Board here for 1994 and this shows that in Glaxo R&D was nearly 15 per cent. of sales and in Wellcome is 15.95 per cent. of sales. I wonder if you can give us any estimate of what percentage of sales you would be spending on R&D in the new company?

(*Sir Richard Sykes*) It is very difficult to give any figures on this. All I can say to you is that the success of the new company will be dependent upon the research and development organisation, and one of the main reasons for bringing these two companies together is to make sure we can sustain that investment in research and development, which in the long term will lead to that success.

14. So could you categorically reassure me that it is not going to be less than 15 per cent.?

(*Sir Richard Sykes*) I cannot categorically reassure you that it will be more or less than 15 per cent. What I can reassure you of is that it will be what we need to spend to make sure we remain at the forefront of this industry.

15. Could I follow up with a rather minor question which I think is related to this one and that relates to a bit of information we were given in the United States last week about the cost of developing a new drug. We were told that in a large company it was likely to be three times as large as in one of the small biotech companies. In view of that information, why do you think it makes sense to form a much larger company than you have at the moment?

(*Sir Richard Sykes*) Certainly I would totally disagree with that statement. It will depend very much on the drug that is being developed. If you are developing a protein out of biotechnology, then the costs are going to be completely different from if you are developing a drug for Alzheimer's Disease. The costs of research and development, believe it or not, are not in research. The costs of research and development are in development, the enormous clinical programmes, the toxicological programmes, the pharmacy programmes, the drug metabolism programmes. To bring a drug through the most highly regulated process in the world is what costs money and nobody can escape that.

Cheryl Gillan

16. Sir Richard, you have been reported as saying that changes in the way drugs will be developed in future was one of the prime motivating factors behind the Glaxo bid for Wellcome. Could you expand a bit more on that over and above what you have said already?

(*Sir Richard Sykes*) Yes, just again to repeat the prime motivator is more than that, it is to create a world leader in pharmaceuticals and to make sure we stay in this country at the forefront of pharmaceutical research and pharmaceutical business. The research and development is a part of that, because if we are to invest—and this year Glaxo alone will invest something like £900 million—that is pure operating expenditure in research and

development. With a market share of less than 4 per cent., if we are to continue to do that in a competitive marketplace, then it is going to be extremely difficult. If we continue as we are, the chances of our R&D expenditure shrinking are extremely high, simply because we will start to get squeezed in that marketplace. So we see the necessity to consolidate, to get a bigger market share so that we can continue to invest in research and development.

17. So you see this bid very much as an opportunity to ring-fence the R&D spend of both organisations?

(*Sir Richard Sykes*) What we see it as is an opportunity to make sure that we can invest in the new technologies and the new sciences that are going to be important to bring better medicines to the community of the future.

Sir Trevor Skeet

18. When you refer to new sciences, are you referring to cell and molecular biology?

(*Sir Richard Sykes*) Yes.

19. To what extent will you be exploiting that new science?

(*Sir Richard Sykes*) It will be the basis of most medicines that are going to be produced in the future, simply because, what are we doing today? We are sequencing and mapping 100,000 genes in the human genome. In two years we could have sequences on all the 100,000 genes. Those genes and their products are what we all are. They are the result of whether we are healthy or whether we are ill, and if we can know what those products are, if we know how to interfere with those processes, then we can produce better drugs.

Mr Batiste

20. Following that point further, we have just come back from a fairly extensive examination of the human genetic science research and the new biotech companies setting up in the States and they have said to us that the vital element for a company such as yours is new products in the pipeline. That pipeline is probably at least 15 years in length and the new products coming in are overwhelmingly going to be these new products coming out of genetic research. They also said to us that the most innovative of the companies are the small biotech companies that are flourishing in the States and to a certain degree in the United Kingdom, and companies like yours have been establishing very close links with a number of these companies. They are better at doing the basic research but when it comes to clinical trials clearly the strength and experience of big pharmaceutical companies helps them through that process. To what extent does your tactic now of enlarging the pharmaceutical end of your business diminish your opportunities for expanding your relationships with all these new biotech companies and being at the sharp end of this new technology?

(*Sir Richard Sykes*) What is research? Research is the gathering, the organisation and the utilisation of information. The pharmaceutical industry is not an isolated entity any more. It is part of a whole community, a whole research community. Just to give you an example, we are connected to an Internet database and the human genome database which

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comes out of Johns Hopkins in Baltimore is updated every 10 minutes. Every scientist in Glaxo can enter that database at any point in time 24 hours a day. That is the speed at which science is moving, so of course we have to be involved with biotechnology companies, we have to be involved with the universities, we have to be involved with the academic institutes, because that is where the knowledge is coming from. What we have to do is take that knowledge and turn it into medicines and those companies are not doing that.

21. What I was trying to ascertain from you, because I understand all the points and clearly it fits in with what we have been told thus far in our inquiry, is the extent to which this new departure of yours represents a wish to put your research more in-house than the trend that has been apparent in the last couple of years at least of developing a wide-ranging network through these small biotech companies, often taking capital stakes in them and financing their research?

(*Sir Richard Sykes*) Our policy here, of course, has not been to take big capital stakes in these companies but to work alongside them in new technologies and new developments. We will always continue to do that whether as Glaxo Wellcome or Glaxo alone, because sometimes in very specific technologies it is not appropriate to develop these technologies in-house, it is appropriate to let them develop outside. If they then become critical to the future of a company like Glaxo, then you go and buy them. So what have we just done? We have purchased Affymax. Affymax is a company on the West Coast of America that uses molecular biology, robotics, electronics and combinatorial chemistry on silicon chips to screen hundreds of thousands of compounds at a time. Maybe Dr Ross would like quickly to give you a view of that.

(*Dr Ross*) One of the challenges that we face is finding molecules with the right sort of biological activity. The targets that we now have and will have in the future are much more complex than they were five or ten years ago and there is no easy starting-point to find the molecule with the right sort of biological activity. What we are now developing is the technology to achieve this, to create huge collections of diverse chemical compounds, millions, indeed billions, of compounds, and then to have the screening technologies and the robotic systems that then allow us to find the one or two or three compounds with the right sort of biological activity. That is the sort of technology that is going to be, in my opinion, absolutely essential if we are going to increase our productivity and efficiency in finding new medicines. The human genome and gene sequencing, as Sir Richard has already said, will give us the sequences of 100,000 genes and that, together with the new computer science of bio-informatics, will give us the opportunity to identify hundreds of different biological targets, opportunities for discovering new drugs. What we want to do is to be in a position where we can exploit fully those technologies in order to create as many medicines as possible, and I believe the merger with Wellcome will give us a larger critical mass, a bigger base in which to exploit those new technologies and find important new medicines for the future.

Chairman

22. I think perhaps, Sir Richard, the Committee might like some reassurance that the benefit of this merger, if it takes place, will still retain for the company a very major R&D effort in the United Kingdom rather than transfer it to the United States, as some of your German competitors have seen fit to do?

(*Sir Richard Sykes*) I think I have already said that as a scientist myself, and a British-grown scientist, I have a very strong commitment to the science base in this country. I sit on a number of scientific committees, as you know.

23. And the base will be the beneficiary of what you propose?

(*Sir Richard Sykes*) The pharmaceutical industry has been strong in this country. Why? Because successive governments have supported the industry, they have created a framework in which it can flourish and the science base is still very strong, and an industry like Glaxo Wellcome is very dependent on its science base and, therefore, I see no reason why we would change that science base at the present time.

Dr Bray

24. You have said how you have supported and will continue to support the science base but the weakness in the United Kingdom is not so much in the science base as in the application. Are there any new measures that you contemplate to create the atmosphere of entrepreneurship, which is different in California from that which one generally finds in this country?

(*Sir Richard Sykes*) I am sure as you wandered round Santa Clara and Palo Alto that the atmosphere is a little different from Leeds and Greenford, but there is no question that it creates a different environment and there is a tremendous entrepreneurial spirit in those communities, a spirit to really be creative. But that, of course, is what we should try and create in the United Kingdom. By having a major British-based, world-leading research pharmaceutical company, I believe we can attract more and more of these companies.

25. Can you help me more than that? Are you aware of the IEE/Sainsburys fellowships in the engineering field, where they are creating these MBA PhDs, which are abundant in California but very little known here?

(*Sir Richard Sykes*) Yes, and, as you know, we support a lot of studentships and scholarships in this country. But more than that, we now have very strong relationships with a lot of research groups in this country, and following the White Paper and following a lot of initiatives that are being undertaken now from the White Paper, there is, I believe, a much greater attempt for universities and industry to work together so that we can create wealth creation from all the knowledge we are producing. I am very encouraged by the way that the university departments and research groups generally are now working much better together with industry.

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[Continued]

Sir Gerard Vaughan

26. The Chairman's question just now is one of our core anxieties. We want to see you flourish in this country. You will appreciate we are talking about the same sorts of anxieties from different directions. If I can take you back to what you said earlier, you said fairly categorically that you could not develop as you think necessary in an organic way, that you have to have an acquisition to do that. I am right on that, am I not?

(*Sir Richard Sykes*) Yes.

27. I do not fully understand why you say that quite so dogmatically, but the other thing you said was that obviously you cannot go into numbers of redundancies but you foresaw the redundancies being offset by the new technologies that you will be able to develop? There are two questions there, are there not?

(*Sir Richard Sykes*) Yes. Let me answer the first one. I responded in answer to a question that Glaxo had always been a company of organic growth, and so it had and it came to be the No. 1 research-based pharmaceutical company in the world through organic growth. Can it continue to do that for the next ten years? My answer to you is no. Why? Because the industry is consolidating and there is a revolution going on in the pharmaceutical industry. That is why if we stand still we will get pushed back and then we will become marginalised and the industry as we know it in this country may well disappear. We have to prepare ourselves for what is going to change in this industry in the next ten years and my belief is that a merger of the type that we are proposing will lead us into that area and will keep us as the No. 1 research-based pharmaceutical company in the world.

28. And you can only do that by an acquisition of this sort?

(*Sir Richard Sykes*) Yes.

29. Can you now touch on the other question that I took you back to, that the redundancies will be offset, you believe, by the new technologies that your acquisition will allow you to develop?

(*Sir Richard Sykes*) I do not think we should relate redundancies to new technologies. I think we have to recognise that as we rationalise these businesses—and the pharmaceutical industry is undergoing rationalisation. In the United States alone in the last 2 years 40,000 jobs have been taken out of the pharmaceutical industry. It is going on all the time. It is a process that is going on around us as people cope with the new environment. What we are saying is that as we bring these two companies together, of course there will be rationalisation, of course there will be opportunities for synergies, but at the same time we have to be prepared to invest in new technologies that will take us forward into the future. The two things are not directly related.

Sir Trevor Skeet

30. How do you account for Hoechst in Germany going over to the United States? Hoechst has gone to the United States for the concentration of its activities. Why has it left Europe and gone to the United States?

(*Sir Richard Sykes*) I think that is a good point. If you return to the United Kingdom and say why is the pharmaceutical industry so strong in the United Kingdom, it is because of the strong science base and the fact it has been encouraged here. In Germany and France you will see that it is not the same as it is in the UK, and the UK has a strong pharmaceutical industry for those reasons, it has been encouraged and it has developed here.

Mr Miller

31. First of all, apologies for missing the first few minutes of your presentation. In the years I have known your company in the North West of England there have been a series of radical changes—redundancies in Liverpool; you have closed the Heparin plant at Runcorn, it was falling down the hill if you recall but nevertheless you transferred it to Spain; you disposed of Evans; you disposed of Vestric, now owned by Amalgamated Anthracite Holdings of all people; the baby food business went to Boots. These have had a number of important impacts on your company. Your argument at the time was all about concentrating on core activity, but interestingly we have heard the opposite from some of your competitors, that they are broadening the base and getting into distribution. My first question is, why have you been doing over the years the opposite to them? My second question is, over this period the uncertainties you have created have had an enormous impact upon the morale of your research scientists, both in the companies you hang on to and in the ones you have disposed of, what estimates have you made of the effect of your decisions on the morale of research scientists?

(*Sir Richard Sykes*) There are a lot of questions there. First of all, this is a dynamic industry, it is a dynamic business, so it is constantly changing. As you quite rightly point out, what Glaxo have done over the years is recognise the importance of concentrating on the business it understands. So in the last ten years we have probably added in the UK about 2,000 people in research and development, we have become a research-based pharmaceutical company, we have become a company which researches into prescription medicines, and we do that 100 per cent. There are very few companies in the world which concentrate on researching into better medicines as a complete company. Why do we not diversify, why do we not vertically integrate and buy a pharmacy benefit manager? Because that is not our business. Our business which we have built up over the years is to run research and development at a high level to produce better medicines for the future. That is the business we have and that is the business we know how to run, and that is the business we are going to run, because we believe in the long-run we will be successful by doing just that. When we have closed plants, of course because it is a dynamic business, we are moving forward, change is part of the industry, it will go on all the time, it will never stop. If we stop, we will go out of business. So we have to recognise the changing environment, we have to change and adapt to that changing environment, and when we need new technologies and need to get out of certain drugs and into other areas, we have to do that. But I must say and must emphasise in my

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[Continued]

[Mr Miller Cont]

opinion Glaxo has always been a caring employer, it has always taken care of any problems that people have on a very well-advised and sensitive basis. That will always be the case, in my opinion.

32. But what about the morale of the people who are left? Do you not accept the people who are going through this uncertainty are bound to be less effective because they are not confident about where they are going to be tomorrow?

(*Sir Richard Sykes*) Change, as I said, always creates uncertainty, but in any dynamic industry there is going to be change. It is our responsibility to communicate with our people and make them feel there are opportunities, that change is for opportunity. I have to disagree with you when you say that we have laid off scientists and people in research and development, because in my knowledge that has never happened in Glaxo. We have built up the research and development, as I have just explained to you. I came to this company in 1986 when the R&D staff numbered 2,000, today it stands at 3,600 in the UK.

Mr Miller: I am not going to name names, Mr Chairman, but I can tell you of people who were laid off in Liverpool on the research side.

Mr Powell

33. Sir Richard, in an absolutely splendid publication, *Laboratory News*, you were recently quoted as saying that if the combined group proceeds you "will not be developing two drugs of the same type" at the same time. In the United States, we have been told that this is not the usual policy of pharmaceutical companies there, indeed they see real advantages to pharmaceutical companies in proceeding in tandem, so to speak, over the new biotechnology companies, because by proceeding in tandem they have been able to keep their options open and make therefore later decisions as to what was the most appropriate drug to develop as a result of the clinical trials. I wonder if you can help us about this apparent discrepancy in policy?

(*Sir Richard Sykes*) This was certainly something which was true in the old pharmaceutical industry. Very similar drugs would be developed together, in tandem, and they would in fact be marketed very close together, simply because there was a market for new drugs, the market was driven by technology and not by the purchaser, there was always a market for those molecules. That will not be true any more. If we developed two drugs and brought them to the market, what is the value of one against the other? Why do we want two drugs? It costs £200 million to bring a drug through research and development into the market place. Why would we want to duplicate that effort, if we could spend that £200 million on doing something completely different and bringing a better medicine to the market place? It just is not part of our philosophy any more to duplicate research and development to that degree.

Chairman

34. Presumably, Sir Richard, duplication would be one of those things which you will seek to eliminate in the Glaxo/Wellcome Group if it occurs?

(*Sir Richard Sykes*) Of course, because they are now two companies, and duplication exists, particularly duplication in infrastructure. We only need one global IT system, we do not need two global IT systems. There will be a lot of infrastructure duplication which can be taken out of the business.

Dr Jones

35. What about the research teams who are broadly in the same areas? Would you seek to eliminate duplication there, even though you can get completely different projects developing as a result of teams working in the same area?

(*Sir Richard Sykes*) There will be teams in both companies working in the same areas of research, but it will be very unusual if they were working directly on similar programmes. The important thing will be to evaluate the programmes which are running, not to say, "You are both working in cardiovascular, CNS or GI" but "What are the programmes. Are they good programmes which will lead to better medicines?" If they are, that is exactly what our business is about, supporting our research programmes and bringing drugs out of those programmes to the market.

36. Can I ask you a question about your submission in which you say that one of the benefits from Glaxo and Wellcome joining forces, as you put it, is that "Glaxo's proven development efficiency should shorten lead times in bringing Wellcome's new compounds to the market." In fact, more recently, has Wellcome not been more effective in doing that than Glaxo? Certainly that is what they see as one of their strengths.

(*Sir Richard Sykes*) I think the proof is in the drugs which have been brought to the market. Since 1990 Glaxo have brought Imigran, which is a very novel drug for the treatment of migraine; Serevent, which is a very novel drug for the treatment of asthma; Zofran, for the treatment of emesis associated with cancer treatment therapy; Flixotide/Flixonase for the treatment of asthma and allergic rhinitis. Those drugs were brought to the market I believe in a period of between six and eight years. I do not know of any comparative data from Wellcome.

Dr Williams

37. I have listened attentively to what you have had to say in the last half hour, and you have put the takeover very much in the context of new medicine as things move on, and we go along with that of course, but I cannot help but feel underneath all this there is a good old-fashioned takeover, and that is really the main driving force. I accept the argument about efficiency and medicine moving on—all science moves on—but the extra premium you are paying for Wellcome will have to be found from rationalisation and savings over the next five or six years, as you have said. Then it does mean very substantial job losses. I am sure you will not put a figure on that, but is it of the order of 5,000, 10,000 or 15,000?

(*Sir Richard Sykes*) I think this is a very sensitive issue, obviously, and it has to be dealt with properly and handled properly. You would not expect me to just come out with a figure that is going to affect employees in both companies, because that is a very

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[Continued]

[Dr Williams Cont]

sensitive issue for the employees themselves. What I have said is that this is an issue which is taking place now in the pharmaceutical industry; it will take place when these two companies are brought together, but that is not the priority, that is not the reason for doing this. The reason for doing this is to create a better company in which there may be more jobs at the end of the day, not less jobs.

38. Conflicting messages will get through to the young people who are choosing career paths of 16, 18 and 21 from this merger because, on the one hand, this area of pharmaceutical medicine has attracted some of our best young people over the years, and it is by far the most successful chunk of industry. When they see redundancy and, at the same time, hear about gene therapy, the medicine and the challenges of the 21st century they want to be in on that but, at the same time, it is the job shrinkage which this takeover would mean which will severely hit morale, not just of the workforce but right through the whole industry.

(Sir Richard Sykes) I have to assure you this company will be employing thousands of scientists in the UK. That is the future of this organisation. Gene therapy, as you so rightly refer to, is what we are going into. We are actually developing a gene therapy for the treatment of cystic fibrosis. We are going into these new areas because that is the future, and we have to recognise there has to be re-training and new education for people to move into the future. Also, let me point out, what is the alternative—for an American company to come in and take a British company over? What will happen then? At least we are going to build a British company.

39. The alternative is the status quo.

(Sir Richard Sykes) We have decided there is no status quo. Wellcome have put themselves up for sale. They are going to Japan, they are going to the United States, they are going to Germany. Is that what we want, to lose the industry from this country?

Mr Batiste

40. Could I go back to Mr Powell's question to you on the duplication of research. Clearly there is no point in bringing two drugs to the market which are very similar to each other, but it has been put to us that there are many research projects that collapse on the way through development, many in the early stages and some very expensively at the point of clinical trials. There is therefore a very powerful advantage in the large pharmaceutical companies, as compared with some biotech companies, because they are able to bring a number of parallel products through to a fairly late stage and so minimise the risk of catastrophic failure. What would be your policy in relation to parallel research going on between yourself and Wellcome at the moment?

(Sir Richard Sykes) In parallel research there would be no issue. The issue you are talking about is when you take drugs out of research into development. There is a critical period here which is called "exploratory development". There we could look at three or four drugs that are very similar, but at that point in time we would choose one drug and take it forward, because it would be almost impossible to start taking two or three drugs from

that exploratory development area through to the marketplace. The expense and involvement of people would be horrendous. Each drug we have developed usually involves 10,000 people in clinical trials. You have to make a decision and, of course, modern science helps us make that decision very much better than it did in the past, because we are now dealing with understanding mechanisms. We can see where the target is; we validate the target; and we put the drug against the target; and we now feel much more comfortable about taking a drug forward into development than we ever did in the past. If we start to lose drugs in full development today then we have not done our job properly, or something very untoward has happened.

Dr Bray

41. Are you not afraid of doing an IBM and sticking with breakthrough drugs when people like Merck have moved into an area where medical care becomes something which is directed at the actual individual case calling upon a whole range of analysis and treatment, and certainly pharmaceutical treatment, but only as part of the overall health care scheme?

(Sir Richard Sykes) I think the analogy of IBM of course is that they did not see the technology of the notebook computer. That is what we are seeing in Affymax; that is what we are seeing in these biotechnology companies; that is what we are seeing in the future of this industry. We are moving, because we know if we stay still we might end up like IBM. What have Merck done? Merck have vertically integrated. Merck have bought their customer, if you like. Is that the right thing to do? They have not bought into health care; they have bought into a distributor that distributes drugs. What I think you are getting at is the new way of getting drugs to the market in the United States, which is called "disease management", and that is all about following diseases. When patients are treated today, they are not just treated and sent home, but they are followed. The drug regimens and the regimens that are used to treat those diseases are followed very carefully. Having followed many thousands of patients on various protocols it is possible now to set out specific protocols for treatment of asthma, for example, for treating other diseases—it could be peptic acid disease or something like that—but very clear protocols, by following the outcome of the therapy as opposed to just the input. That is disease management. That now involves a lot of investment in the marketplace, to set up those processes; because gone are the days when hundreds of representatives used to knock on doctors' doors. It is going to be very different. It is going to be disease management, and following the patients and getting involved. Glaxo and Glaxo Wellcome will be very, very much involved in that activity.

Chairman

42. I think that is a fair point on which to conclude our session. Thank you for coming. Dr Ross, thank you for coming as well. The Committee I think gets the view expressed from you that the British

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[Chairman Cont]

pharmaceutical industry will be safe in your hands. Is that right?

(Sir Richard Sykes) Yes.

Chairman: We look forward to the delivery of that. My goodness me, the Committee will have you back again if it is not!

Memorandum from Glaxo plc following the oral evidence given on 22 February (28.2.95)

GLAXO WELLCOME: DEVELOPMENT TIMES

Glaxo's memorandum to the Select Committee of 17 February stated that "Glaxo's proven development efficiency should shorten lead times in bringing Wellcome's new compounds to the market." As this statement has been questioned, some supporting information may be helpful to the Committee.

Speed in bringing new medicines from research, through the various phases of development to approval by regulatory authorities and onto the market is well recognised as a key factor in Glaxo's success in recent years. For example, Zofran, a novel treatment for nausea and vomiting associated with cancer therapy, was developed in 6½ years; Serevent, a long-acting asthma treatment, was developed in 7½ years; and Imigran, a novel treatment for migraine, was developed in 6½ years.

These development times are unusually short for such major, innovative medicines, which had combined sales in 1994 of £757 million. According to a recent survey by the Centre for Medicines Research, the average development time achieved by leading pharmaceutical companies is 9½ years. We do not have comparative figures for Wellcome's overall speed of development.

The tables which Dr Barry presented to the Select Committee¹ relate primarily to the process of regulatory approval in the USA, which is only part of the full international research and development process. It should be noted, moreover, that the speed of regulatory approval in the USA is affected by various factors, including the nature of the product and the review practice of the Food and Drug Administration (FDA) division responsible for the application. Two of the Wellcome products in question—Retrovir and Mepron—were accorded the highest priority by the FDA because they were for the treatment of AIDS or AIDS related diseases. These products are understood to have been approved in three and seven months respectively, compared with average FDA review periods of around 2½ years. The other Wellcome products cited—apart from Wellbutrin, which is understood to have required four years for FDA approval—are single or short duration therapies for specific, select populations for which relatively short development and approval times would be expected.

Examination of Witness

DR JULIAN JACK, Chairman of the Scientific Committee, Wellcome Trust, examined.

Chairman: Dr Jack, thank you for coming to see us. You have heard what Sir Richard thinks about the issue, and used the phrase that Wellcome is "up for sale". I think possibly that is something you might care to comment on. Can I ask my colleague, Dr Williams, to start the questioning

Chairman

44. That may be so, Dr Jack. I think what Dr Williams is suggesting is that in this fairly public exchange of views about a very considerable shift, the Trust so far has not had the opportunity to air some of its views and opinions as to why this should be taking place. You are kindly here, and we might ask you what you think and why have you done it?

(Dr Jack) On the issue of why the Trust has not as yet issued its views about this, I must remind the Committee of course there has been a court case and we had to seek a Court Order. That Order was only given on Friday, and of course the proceedings are themselves confidential; one would need to get the leave of the court to make any comments about the submissions we made. We have not really had the opportunity. The second thing is, the Glaxo/Wellcome possible merger came as a great surprise to us, as I am sure you are aware. We had to take some time to digest it.

Dr Williams

43. You represent the Wellcome Trust and you are the key players in this, in that you hold a 40 per cent. share in Wellcome. In our documentation for this afternoon's session there was abundant material from Wellcome, abundant material from Glaxo but we have nothing at all from the Wellcome Trust. I scanned through a whole dossier of newspaper articles in my reading today looking for comment and you are conspicuous by your extremely low profile in all of this, and yet you are the key players.

(Dr Jack) I am not sure we are entirely the key players; but, with respect to the comment you are making about not submitting any material, I must apologise but, as far as I am aware, we were not invited to submit any.

Dr Williams

45. Could I just press you further. Within that 40 per cent. share are you unanimous within the Trust that this is the right thing to do? The way it is being reported is that Glaxo have got 40 per cent. of the

¹See evidence p.18

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DR JULIAN JACK

[Continued

[Dr Williams Cont]

vote in the bag anyway, as if it was a giant block vote that automatically goes altogether. Is there some division of opinion perhaps within the Trust as to whether this is the right thing to do?

(Dr Jack) None whatsoever. We were informed by the will of Sir Henry Wellcome to be a research undertaking charity. There has been no division about the fact, when we met and received both the financial and legal advice on Sunday 22nd, that this was the right thing for the Trust to do. We were so advised and there has been absolutely no dissent. That is not to say there would be no great regret, but the kind of advice we were given was that whatever our personal regrets we would be behaving virtually illegally if we did not accept this.

46. Finally about employees, does the Wellcome Foundation have to take account of the welfare of your employees?

(Dr Jack) Yes.¹

47. I was speaking to a former senior employee of Glaxo last week about what he thought of the takeover and he said he would be very concerned if he was working in Beckenham. Do you share that concern for your employees?

(Dr Jack) They are not our employees, they are employees of Wellcome plc, but of course. When I was alluding to personal regret, in the larger setting of course there will be two different ways in which the Trust will have regret, and one is severing its major connection with Wellcome plc as a single company, although as you know the merger proposal does allow us to have a connection in terms of still having quite a substantial shareholding value in the merged company. But with respect to the point you mention, the concern for welfare of the employees and the whole issue of potential unemployment which might be created by this merger, we, as I said, had as the Governors of the Trustee, now formally, to take advice and it was absolutely clear what our narrow fiduciary duty was. It was recommended to us as a very good deal for the Trust with respect to our primary charitable purposes. On the occasion when this decision was made in a tentative way on the Sunday, when we made a conditional decision of agreement to accept the Glaxo offer, we explored with our lawyers and financial advisers whether there was any way in which we could ameliorate the effects on the company. We were certainly concerned about that. We were told it would be outside our fiduciary duty to set any clear conditions, so we had to accept that advice. Nevertheless, when Sir Richard Sykes came and talked to us on that particular Sunday, the day on which we basically knew about the offer and had to make the decision, we did explore with him the kind of concerns that we expressed, which are exactly some of the ones you have been raising already with him, and the answers which were given to us then were of course naturally very similar to the ones you have just now heard.

Mr Batiste

48. I fully understand you are a charity and the prime purpose of your charity is to fund medical research "which may conduce to the improvement of the physical conditions of mankind"—very noble sentiments—and I would like to ask you two questions about that. However, first, I wonder if you could clear up an apparent conflict between what you have said to us and what was previously said by Glaxo, because virtually the last comments from Glaxo were that Wellcome is for sale and if it was not for this deal it would be going to an American or Japanese company, but you said the bid came to you as a surprise?

(Dr Jack) Yes.

49. Have you been hawking the shares of Wellcome around the market?

(Dr Jack) We certainly have not been hawking the shares. We have an understanding with Wellcome plc that was agreed at the time of the 1992 share sale, when we sold a substantial proportion of the company off, that we would not seek any buyer and we have not sought any buyer. Nevertheless, in the memorandum of understanding, indeed in the covenant, which was submitted to the court at the time of the 1992 sale, it was clear, and Wellcome plc agreed, that we had an overwhelming fiduciary duty to look after the charity and that was our prime concern, and therefore it was acknowledged by the company that of course if an overwhelmingly attractive financial offer came we would have to accept it. But we agreed with the company that we would not solicit, and we did not solicit, this takeover.

50. That is very helpful because that gives us a clear answer on that. Perhaps we may need to ask more questions of Glaxo on this. Dealing now with the fact you have accepted this offer and if it goes ahead you will not have so close a relationship with one specific company, would you see in the future you will be necessarily as linked to the more pure areas of research, or do you see yourself becoming more focused on the market place?

(Dr Jack) I am not sure what you mean by "focused on the market place".

51. Can I clarify, because it probably was not very clear: one of the things we have discovered in our research in the States is the enormous funding gap in the new technologies, and you have been very much associated so far with the pure elements of research, do you see any change in that?

(Dr Jack) Yes and no. Our charitable status means we cannot fund directly research which is seeking commercial gain, and we virtually entirely fund within the university sector in this country. Both the universities and we as a Trust are extremely concerned about any discoveries which might have exploitability and should be brought to the market place, simply because, after all, our original charitable mission, as you just stated it, was to make sure any discoveries were finally conducive to improving the physical condition of mankind.

52. Previously have you normally done that through the Wellcome company?

¹Footnote by Witness: This answer was given on the assumption that "Wellcome Foundation" referred to the Wellcome Trust.

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DR JULIAN JACK

[Continued]

[Mr Batiste Cont]

(Dr Jack) No. We have never done that. To pick up on an earlier point, we have been completely hands-off. After 1986 when we first got permission to sell a proportion of the company, we have simply been a shareholder, we have not been a privileged shareholder. I think that is an extremely important point to emphasise.

Mr Miller

53. Can I take you back to your response to Dr Williams, and just pick up on your very last phrase just now, "a hands-off relationship"? Are you saying that that hands-off relationship extends to an absolute denial of the letter of Sir Henry's will, which as I understand clearly set out his desires to obtain a fair and equitable treatment of employees? That hands-off relationship you have described is a denial of the contents of the will. Is that what your lawyers are telling you is okay?

(Dr Jack) The original terms of the will did include that concern which you are stating now. At that time, of course, we were the sole owners of the company and therefore in some sense could be regarded as the people who should be driving the decisions of the company, and in particular the way they treat their employees. After we were given permission to sell down in 1986 some of those terms were then severed, and in particular concern with the company in those sorts of respects was something which was severed from us, we were just a shareholder.

54. Would you not agree that even if you had just one share in the company, in exercising your rights under your share you should express the desires set out in Sir Henry's will?

(Dr Jack) It is not clear to me how we would exercise that by holding a share, other than of course our votes which are cast at the annual general meetings which of course we attend. I am not clear what you think the Trust should have done. Our own impression was that prior to this particular merger, or still up to the moment, Wellcome plc was an extremely good employer.

Mr Powell

55. I well understand the constraints which you have been describing in relation to the fiduciary duty which you have as trustees of the Wellcome Trust. Once upon a time I used to advise people about these things. I am concerned about two aspects of this. First of all, as I understand fiduciary duties, would you not find yourself in some kind of conflict if a counter bid came in which was more generous than the Wellcome Trust, than the current one, and you would therefore have to revise your position if you are to fulfil the fiduciary responsibilities which you have? Secondly, many mergers and takeovers sound attractive in advance but they do not necessarily turn out to be so successful in the result. As part of the proceeds which you are likely to receive, as I understand it, are shares in the Glaxo company: to what extent have you as trustees, considering your fiduciary position, given attention to the ability of the Glaxo company to successfully absorb Wellcome and to enhance the collective value of the joint company as a consequence? Or could we find ourselves in a situation where it turns out that the

constituent different parts of the company are worth more than the whole, and therefore you are in breach of your fiduciary responsibilities?

(Dr Jack) Indeed. On your first question, if a higher offer came we would, I am sure, seek the advice of our lawyers and financial advisors, as before, and listen to them. The advice we have been given by our lawyers about fiduciary duty and accepting the highest bid is that, in fact, the only circumstances in which we could go against that would probably require us to seek permission either from the Charity Commissioners or from the court. Those are the sorts of exceptional circumstances where we could do that if necessary. With respect to the second question you were raising, which is to what extent did we have concern about whether Glaxo and Wellcome would be a good match, I should say, although we never solicited any bid, we have operated under our fiduciary duty as set out, following the 1986 sale, by the then Mr Justice Hoffmann in 1987, that we had to act as a prudent man of business (those are his words, roughly speaking) in looking after and securing the long-term future of the charity. That long-term future included, and within the scope of this thing, the future of the company in which we have a principal asset. With respect to the whole issue of Glaxo/Wellcome as a match, we had collected and received information earlier from our financial advisors just in case a bid came in from a large number of companies and what their matches were like. That was part of what we felt was our responsibility under the terms of the then Mr Justice Hoffmann's instructions to us about looking after our investments. Of the companies that we considered, and that were presented to us by our financial advisors, Glaxo seemed to us a very good deal with respect to a combined company; and, in addition, the further evidence we sought from Sir Richard Sykes on that particular occasion was that it was going to remain heavily committed to research, because that is one of the things we are concerned about, and that the kinds of commitment to research were also going to be based in this country.

Chairman

56. Thank you for that, Dr Jack. What are you going to do with the proceeds? Can you tell us what your research priorities will be? I take it you will be spending a substantial amount of the proceedings on research? Will it result in significant change in the Trust's programmes?

(Dr Jack) Whether it will be a significant change or not is at this stage difficult to answer. As I have said, the actual emergence of this offer has just come and we have not had time as a set of governors to meet and discuss it. Just to clarify and give some kind of feeling for the proportional change: if this merger goes ahead in its present form, effectively our capital base will increase by about 23/24 per cent., of that order, and that amounts to an increase in the capital base of just over £1 billion. That money prudently invested at roughly 4 per cent. will yield in the long-term about £50 million. That will be the kind of step jump in our income, a jump of the order of 25 per cent. In terms of the kinds of things the Trust might do, its commitment, of course, is to medical research, and I have absolutely no doubt that we will decide to

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[Continued]

[Chairman Cont]

invest that money in medical research—that is what our duty is. The particular forms or ways in which we do it in the long-run will be in supporting more people to do scientific research.

57. The Committee can take it from you, at least according to proper and due consideration, that medical research will benefit from this merger, from the proceeds and the £50 million income you will have each year?

(Dr Jack) Indeed.

Sir Gerard Vaughan

58. That is a rather reassuring and helpful answer, because we are concerned that you might change the policy for funding research. It has been put to us that you concentrate too much maybe on funding pure research. For example, it was put to us that you would fund an inquiry into identifying a particular gene but you would not then fund any development after that information was obtained and would not follow up that basic research?

(Dr Jack) We are extremely concerned to be able to follow it up. It is simply the manner in which it is done. As you know, we are funding some very large fundamental molecular biological programmes, and are very pleased indeed to do that. The procedural difficulties we have had is that, up until now, we do not have our own technology transfer company. We do actually get advice from another charity based technology transfer company. Indeed, I have been involved with that other technology based transfer company in seeking to make some of the initial deals with the pharmaceutical industry so one particular member of the pharmaceutical industry in this country will invest substantial sums into the research that is going on in the particular centre where we have created the basic research.

59. You say up until now, so all being well your intention would be to develop that side further. Is that right?

(Dr Jack) Absolutely. To make the constitutional changes we do have to go the Charity Commissioners. I would hope and expect there would be no difficulty about that.

Mrs Campbell

60. Dr Jack, I think we have been hitting you quite hard with many questions, and perhaps it is just worth saying it is very much appreciated the way in which the Wellcome Trust sets a very good example in the way it funds research stipends, for example, which are a good deal more generous than the BBSRC and the MRC, one which is certainly appreciated by my constituents; and also in the way you pay a great deal of attention to the career structure of young scientists, which again is something which is missing from the publicly funded sector. The university research is important and continues to be important to you, but we are rather interested to hear that you are negotiating an alliance with CRC Technology to help commercialise the results of the Wellcome Trust funded research. Could you tell us whether that points to a different direction, in that you are there looking more at the exploitation of the basic research than you have done hitherto?

(Dr Jack) Thank you for that question, because I would be very happy to clarify exactly what our intentions are in this respect. We have been rather slow out of the blocks in creating our own technology transfer company, partly because we fund through the university system, and the universities have themselves set up technology transfer companies, and we are perfectly happy for them to do it. What has stimulated us, particularly with many of the molecular biological studies we are funding now, the human genome sequencing, et cetera, is that our own funded scientists were coming to us and saying, "We have exciting discoveries, we do not think the university technology transfer company is actually serving our purposes best". It is extremely difficult for any university to have expertise in how to exploit discoveries over a whole range of science, which is the problem which is confronting them. So we accepted that, and our first and primary intention is to help the scientists who are making the discoveries, get their discoveries patented and exploited, but we also of course continue to insist that that research is published. We feel very strongly the research should not remain secret but should be published, after a window of time, normally six months. Secondly, we really want in the future to invest money, initially quite a small amount of money, of the order of 2 million, so of the order of 1 per cent or so, once and if we get permission from the Charities Commissioners, to help protect that science and stop it from being buried. In other words, to make sure it does get out and does get exploited. The idea that we are doing this primarily to make money or have commercial exploitation would be incorrect, we are doing it to make sure the scientists are helped and that the scientific discoveries are properly exploited.

61. Can I take it then that part of your intention is to perhaps improve the expertise within universities amongst industrial liaison officers?

(Dr Jack) The actual intention we have in the new kind of company is that we would hope that it would have expertise particularly in the bio-medical area and would act in an advisory capacity and not just be something which grabbed the IPR of the discoveries. In other words, the particular thing we want to set up is a company which would be able to advise and say, "We think we could do this but if the university wants to do it, or alternatively a quite separate company, that might be the best way to make sure this does get out and gets available."

Dr Jones

62. You have already told us that by agreeing to sell shares without obtaining assurances about the long-term employment of some of the company staff, that you think you are in conformity with the terms of Sir Henry Wellcome's will. Can I look at the other primary purpose of the Trust, and that is to fund research. We have just heard that you will as a result of this deal have more money to put into the funding of research through the Trust, but what assessments have you made about the overall impact of this decision on the resources which are going to be available for research "which may conduce to the improvement of the physical conditions of mankind"?

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[Continued]

[Dr Jones Cont]

(Dr Jack) I am not quite sure that I am clear exactly what you are seeking.

Dr Jones: Bearing in mind there are less funds—

Dr Bray

63. In particular, have you sought assurances from the Medical Research Council and Ministers that MRC funding will not be reduced by the amount your funding is increased?

(Dr Jack) We have made representations to both David Hunt and Virginia Bottomley very recently, indeed when they came to visit the Trust—

64. In the context of this bid?

(Dr Jack) No, not at all. We have not had time to do anything like that. We only got the court clearance on Friday.

Chairman

65. I think that is understood.

(Dr Jack) To return to your question, particularly since there was an underlying point in your preamble as it were about employment, it is certainly true the additional 50 million, roughly speaking, of added income per year would allow us in terms of the average cost of scientists to devote all that money to employing roughly another 1,000 scientists. In other words, I agree, the Trust agrees, with the estimate that Wellcome plc submitted to you and was quoted earlier to this Committee. There is a difficulty, of course, for us in how quickly we can do that. You cannot suddenly take 50 million and say, "A thousand scientists must materialise", because they are just not there; training a scientist takes about ten years and costs about a quarter of a million. But there is no doubt since we are committed to funding further medical research, and since that is done by scientists—

Dr Jones

66. It has been suggested the new company might be spending £300 to £400 million less on research, so overall there would be a net loss of expenditure on research, notwithstanding any effect that there might be on Government funding research?

(Dr Jack) Yes. Obviously, I cannot answer on that estimate.

67. By taking this action you are actually allowing that to happen, that you are a prime mover in this happening. How does that conform with the terms of Sir Henry's will?

(Dr Jack) I would wish to dispute that. We are not a prime mover. We did not solicit this bid.

68. Your decision is crucial to the outcome.

(Dr Jack) Absolutely. We can react to that unemployment and the reduction of the total number of scientists employed in this country with great regret, but what we cannot do is behave illegally, and we were told we would be behaving illegally if we did not accept that.

Mr Batiste

69. You said earlier on in your evidence that you went through an exercise some while ago of trying to compare how Wellcome would fit as a merged target with the other big pharmaceutical companies around the world, and you asked Sir Richard Sykes at that stage for some information about the possible fit with Glaxo. Did you ask for similar information from other companies?

(Dr Jack) To clarify that a little, we have of course had financial advisers who have been advising us in general about all our investments, not their management but in terms of the way we went about the overall structure of our investments, and the anxiety about our holding in Wellcome plc was naturally exacerbated after the election of Clinton. I am sure you are familiar with the kind of changes in the pricing, if you like, of the share value of the pharmaceutical sector as a whole. What we did, indeed our financial advisers did for us, was to collect information on different companies, and that was submitted to us at an earlier stage.¹

70. Do you think it is possible that exercise of collecting the evidence from these companies in fact triggered amongst pharmaceutical companies the belief that Wellcome might be for sale?

(Dr Jack) I doubt it. It was done confidentially. The sort of information with which we were presented, which was entirely confidential financial advice to us, was of course all public information. Any stock market analyst within the pharmaceutical sector has access to all that. So I do not really understand how it could have become known. Indeed, it is not my reading of the financial press that there was any expectation this was going to happen.

Chairman: Thank you, Dr Jack, for being able to come and for being able to answer some of the questions which have been circulating in our minds, in view of the fact we had not heard very much from the Wellcome Trust side. We are most grateful you have been able to take time to come and see us. Thank you very much.

¹ Footnote by Witness: The Trust did not ask Sir Richard Sykes about the Glaxo-Wellcome fit until the evening of 22 January.

Memorandum from The Wellcome Foundation Ltd

BACKGROUND

The Wellcome Foundation Ltd is a research-based pharmaceutical company, the origins of which go back to 1880. Its research activities commenced more than 100 years ago and the Company has an impressive record of research achievements to its name. In recent years, these include the discovery and development of innovative new medicines for the treatment of herpes infections and epilepsy, as well as the development of the first antiviral medicine for the treatment of HIV infections, including AIDS.

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[Continued

Wellcome's underlying research philosophy derives not only from the beliefs of the Company's founder, Sir Henry Wellcome, but also from the pioneering work on new principles of drug development by George Hitchings and Gertrude Elion, who both spent more than 40 years with the Group and who were awarded the Nobel Prize for Medicine in 1988. A fuller list of the Group's research achievements is set out in the Appendix.

Currently, the Group employs 3,700 people in research and development, out of a world-wide staff of 16,500. Research and development are carried out primarily in Kent, UK, and North Carolina, USA, the distribution of R&D staff being as follows:

UK	1,800
USA	1,550
Rest of World	350

In the UK, the main research facility is at Beckenham, Kent (1,250 R&D staff). Development facilities are located at Dartford, Kent (550 R&D staff).

In 1993, the Group identified a number of key initiatives which it felt were prerequisites to future success in the changing environment of the pharmaceutical industry. One of these was to establish the industry's most effective global development process for new products. Following a study by senior management on the best way to achieve this objective, in 1994 Wellcome established a single, global management structure for its R&D activities world-wide, led by a Research, Development and Medical Affairs Director who is an executive member of the Wellcome Board.

With the benefit of this streamlined organisation, Wellcome is now able to bring new medicines to market more quickly and on a global scale. The first fruits of this new organisation were the co-ordinated submissions of dossiers on the new antitherpetic treatment **Valtrex** (valaciclovir) for shingles to regulatory authorities in 19 countries over a three-week period last summer. This has since resulted in marketing approvals in several countries, including the UK.

As part of the reorganisation, there was a small reduction in R&D headcount (less than 200 people), mostly in administrative and back-up functions. Wellcome's current five year plan envisages that its R&D resource is maintained at broadly current staffing levels.

THE CURRENT POSITIONS OF WELLCOME AND GLAXO

Wellcome plc, the publicly-quoted parent of The Wellcome Foundation Ltd, recently published financial results for the 12 months ended 31st December 1994. These showed sales revenue growth at constant exchange rates of 13 per cent, due almost entirely to volume growth rather than to price increases. Substantial prescription sales growth (16 per cent) was shown by the Group's leading product, the antiviral **Zovirax** (aciclovir). Primarily as the result of a continuing campaign to control costs, earnings per share for the Group rose by 18 per cent.

By contrast, results for the six month period to the end of December 1994 released recently by Glaxo show that it achieved only a 3 per cent growth in sales revenue at constant exchange rates. Sales of its leading product, **Zantac**, declined by 4 per cent globally and sales of **Zofran**, one of its newer drugs, by 2 per cent.

The rationale for Glaxo's bid for Wellcome is, therefore, clear. It is to re-establish its growth through:

- (a) acquiring a company which is demonstrating strong growth; and
- (b) using the merger of the two organisations to achieve massive cost savings.

In its initial presentation on the offer to City Commentators, Glaxo listed three main areas under the heading "Cost efficiencies". The first of these was "Streamlining R&D programmes". This is to be achieved through "focused investment" and reduction in costs incurred in "Duplicative research and development programmes".

These proposals raise the serious prospect of a narrowing of the research base. They also envisage the eradication of competing research programmes, with the attendant risk that potentially superior compounds may be eliminated from the research pipeline in the interest of commercial gain in the short to medium term.

The other areas indentified by Glaxo for significant cost savings were sales and marketing and manufacturing and administration.

PHARMACEUTICAL R&D EXPENDITURE

Expenditure on R&D by major British pharmaceuticals companies in 1994 totalled about £2150 million, according to estimates published by stockbrokers' analysts. In the 12 months to December 1994, Wellcome spent £346 million on R&D, or 18.6 per cent of its revenue from prescription medicine sales. Wellcome's annual R&D expenditure has been in the upper half of R&D spend by pharmaceutical companies world-wide, which has been in the range of 13-23 per cent of sales.

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In the 12 months to December 1994, Glaxo spent £851 million, or 14.9 per cent of its sales revenue, on R&D. Together, the Glaxo and Wellcome research budgets accounted for about 55 per cent of the R&D spend by British pharmaceutical companies.

Brokers' analysts suggest that, if the bid is successful, Glaxo will seek to reduce the annual combined R&D expenditure by between £300 million and £400 million by the end of the decade, ie more than the total of Wellcome's current annual R&D budget. Translating this into human terms, at an average cost of R&D personnel in Wellcome (£93,500 per person per annum), that amounts to job losses from R&D of between 3,200 and 4,300 people. If one were to assume, as seems reasonable, that these would be spread geographically in the same proportion as the current R&D personnel, this would equate to up to 2,100 R&D job losses in the UK which is more than equivalent to Wellcome's current UK research resource. This figure is clearly an approximation, but it is an indication of the scale of potential job losses for qualified scientists.

Because of the nature of the pharmaceutical business, scientists are employed in manufacturing as well as in R&D. Job opportunities would equally be at risk in this activity, given Glaxo's stated objective of "Rationalising manufacturing activities".

The hope that unemployment among pharmaceutical R&D personnel resulting from a take-over of Wellcome by Glaxo would be offset by the additional research funding available from The Wellcome Trust is a forlorn one. Glaxo's current offer, if accepted, could lead to an annual increase in the Trust's income of ca£100 million per annum. Using the same basis as above, this would provide sufficient funds for about 1,000 researchers—against potential job losses more than four times as high.

The consequent narrowing of the UK science base will not only have a devastating effect on those scientists who lose their livelihood, but is likely to have an additional negative impact on those currently considering careers in the biomedical sciences. With fewer job opportunities in prospect, the pharmaceutical industry may be regarded as a less attractive employer by students in future.

WELLCOME'S RESPONSE

The Board of Wellcome has recognised that the decision by The Wellcome Trust to sell its shareholding of around 40 per cent in the Company has effectively put the whole Company up for sale. However, the Board believes that the Glaxo offer undervalues Wellcome and it is working energetically to develop a better offer for shareholders.

The Board also believes that it would be better for all the stakeholders in the Company, as well as for British science, if another bidder were to emerge which was showing organic growth and could achieve as much if not more in the way of synergies based on business growth as it could from cost cutting. Consequently, the Wellcome Board has advised shareholders to take no action on the Glaxo offer at present.

APPENDIX

Research Achievements of the Wellcome Group

1891	Tabloid* brand hypodermic curare issued for use in tetanus
1894	The first diphtheria vaccine produced in Britain
1904–14	Histamine, acetylcholine and the sympathomimetic amines discovered and studied
1922	The primary and secondary immune responses described
1927–31	Diphtheria vaccines APT and TAF developed
1928	Yellow fever vaccine successfully developed
1930	Digoxin isolated from digitalis leaf
1936	Yellow fever vaccine introduced
1937	A globin zinc insulin developed
1938	The antibacterial effects of sulphones, the main agents for the treatment of leprosy, discovered
1938	The first curare alkaloid produced
1946	The first pure tubocurarine (Tubarine*), introduced as a muscle relaxant for major surgical operations
1947	The antibiotic polymyxins discovered

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[Continued]

- 1949 The pharmacology of suxamethonium (Anectine*), the short acting muscle relaxant, described
- 1950 The antinauseant, cyclizine, and the analgesics, dipipanone and thiambutene, discovered
- 1952 the antimalarial, pyrimethamine (Daraprim*), discovered by Wellcome USA
- 1953 The antileukaemic drug, mercaptopurine (Puri-Nethol*), discovered
- 1959 The first adrenergic neurone blocking agent, bretylium tosylate (Bretylate*), introduced
- 1959 The anthelmintic, bephenium hydroxynaphthoate (Alcopar*), introduced
- 1961 The first commercially available oral polio vaccine introduced
- 1962 Azathioprine (Imuran*), discovered by Wellcome USA, used as an immunosuppressant to combat organ transplant rejection
- 1963 The antihypertensive, bethanidine (Esbatal*), discovered
- 1963 Methisazone (Marboran*) established as the first antiviral chemotherapeutic agent by its effects on smallpox
- 1963 A novel *in-vitro* pregnancy test developed
- 1966 Allopurinol (Zyloric*) introduced for the treatment of gouty arthritis
- 1967 The first total stereochemically correct synthesis of emetine achieved on a commercial basis
- 1968 Co-trimoxazole (Septrin*), a broad spectrum antibacterial based on trimethoprim, introduced
- 1970 Wellcome awarded its first Queen's Award for Export Achievement
- 1971 Wellcome awarded a second Queen's Award for exports of human medical products and diagnostic reagents
- 1971 Rubella vaccine (Almevax*), the first vaccine in the UK to be produced on human diploid cells, introduced
- 1971 Wellcome awarded its first Queen's Award for Technological Achievement for the discovery of trimethoprim, a component of co-trimoxazole (Septrin*)
- 1975 A rapid haemagglutination test for hepatitis B virus introduced by Wellcome Reagents
- 1976 Epoprostenol, the prostaglandin which prevents the formation of blood clots in arteries, discovered
- 1976 Wellcome awarded a third Queen's Award for Export Achievement
- 1977 A rapid radio-immunoassay system developed for the measurement of blood digoxin levels
- 1978 The insecticide, permethrin, introduced for public health uses
- 1979 Wellcome awarded a fourth Queen's Award for Export Achievement
- 1981 Coparvax* (*Corynebacterium parvum*) injection introduced for the alleviation of malignant pleural effusions and malignant ascites, two severe complications in cancer patients
- 1982 The novel surgical muscle relaxant, atracurium besylate (Tracrium*), introduced
- 1982 Aciclovir (Zovirax*) for systemic use against herpes infections becomes as injection
- 1982 Wellcome's then R&D director, Dr (now Sir) John Vane shares Nobel Prize for Medicine with Swedish doctors, Sune Bengtstrom and Bengt Samuelsson for work on prostaglandins
- 1983 Zovirax* (aciclovir) wins Belgium's Galenus Prize
- 1984 Clinical trials establish the effectiveness of permethrin in the control of head lice infestations in children
- 1985 Wellcome's UK Research Laboratories win Queen's Award for Technological Achievement for Zovirax* (aciclovir)
- 1985 Zovirax* (aciclovir) wins France's Prix Galien
- 1985 AIDS diagnostic kit introduced by Wellcome Diagnostics
- 1985 Digibind*, a treatment for digoxin and digitoxin intoxication, introduced
- 1986 Wellferon*, (interferon alfa n1 Ins) a purified mixture of human alpha interferons, introduced
- 1986 Wellcome's UK Research Laboratories share the Queen's Award for Technological Achievement with the Department of Pharmacy, Strathclyde University, Glasgow, for Tracrium* (atracurium besylate)
- 1986 Tracrium* (atracurium besylate) wins Belgium's Galenus Prize
- 1987 Retrovir* (zidovudine) licensed in the UK
- 1987 Wellcome Diagnostics wins Queen's Award for Technological Achievement for the development of Wellcozyme*, the anti-HIV test kit
- 1988 The Nobel Prize for Medicine awarded jointly for discoveries of important principles for drug treatment to three distinguished scientists associated with the Wellcome Research Laboratories: Dr George Hitchings and Dr Gertrude Elion worked for most of their professional lives in Wellcome's American company; Sir James Black for some years as director of therapeutic research at the UK research laboratories
- 1989 Wellcome awarded its fifth Queen's Award for Export Achievement

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[Continued

- 1990 Wellcome awarded its fifth Queen's Award for the technological development of Retrovir* (zidovudine)
- 1990 Retrovir* (zidovudine) awarded the Claudius-Galenus Preis for 1990 in Germany
- 1990 Exosurf* Neonatal (colfosceril palmitate), a protein-free synthetic lung surfactant for use in neonatal respiratory distress syndrome becomes available
- 1990 Lamictal* (lamotrigine) a new anti-epileptic drug is introduced
- 1991 Wellcome awarded its sixth Queen's Award for Export Achievement
- 1992 Mivacron* (mivacurium), the first short duration non-depolarising neuromuscular blocking agent, launched in the USA
- 1992 Zovirax* (aciclovir) approved in the USA, Austria, Denmark and Spain for use in the treatment of immunocompetent children and adolescents with chickenpox
- 1992 Exosurf* Neonatal (colfosceril palmitate) awarded the UK's Prix Galien
- 1992 Mepron* (atovaquone) approved in the USA for use in the treatment of *Pneumocystis carinii* pneumonia
- 1993 Exosurf Neonatal (colfosceril palmitate) awarded Portugal's first ever Prix Galien
- 1993 Zovirax (aciclovir) Cold Sore Cream made available over-the-counter (OTC) in the UK
- 1995 Valtrex* (valaciclovir) introduced as a successor to aciclovir in the treatment of shingles

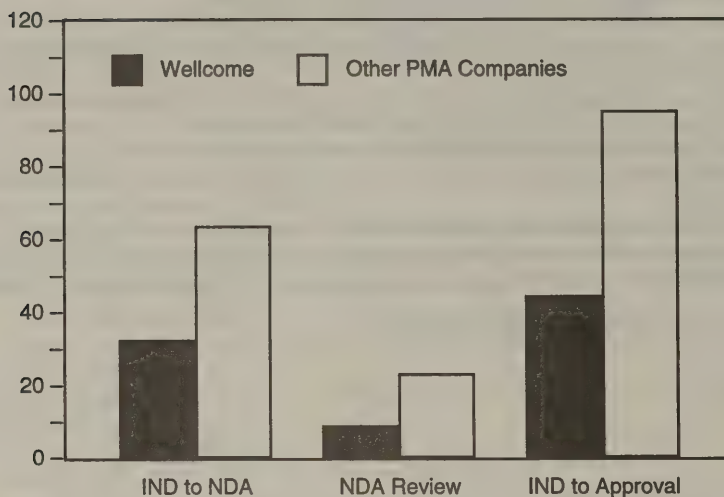
* Trade mark of Wellcome Group companies

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[Continued

Tables given by Dr David Barry of Wellcome Foundation Ltd. during the meeting.

NCE Drug Development Times 1985-1993 IND to NDA and NDA Review



Companies: Glaxo, Merck, BMS, Ciba-Geigy, SKB, Roche, Lilly, AHP, Pfizer, Schering-Plough, Upjohn, Lederle, Warner-Lambert, Syntex

Wellcome products: Digibind, Exosurf, Mepron, Mivacron, Nix, Nuromax, Retrovir Capsules, Wellbutrin

NCEs Approved by the FDA 1985-1993 and Average Review Times

Company	No.	Avg. Time (Months)
Bristol Myers Squibb	13	23.1
Ciba-Geigy	7	33.3
Glaxo	7	23.5
Lederle	4	35.2
Lilly	8	38.7
Merck	11	24.1
Pfizer	7	34.5
Roche	6	34.4
Schering-Plough	4	60.8
Smithkline Beecham	6	37.8
Syntex	7	26.5
Upjohn	2	20.1
Warner-Lambert	5	33.7
Am. Home Products	7	57.9
Total NCEs	94	
Avg. Approval times		33.3
Wellcome	8	17.5

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[Continued]

Examination of Witnesses

MR JOHN ROBB, Chairman and Chief Executive, and DR DAVID BARRY, Group Director, Research Development & Medical Affairs, Wellcome plc, examined.

Chairman

71. Thank you very much indeed, it is very good of you to come and see us. You will be fully aware that the Committee has decided to take one half day's evidence, as it were, from the three organisations involved in the present position. We felt we should do that on the grounds that we have an overall interest if not anxiety about the consequences of what is proposed in relation to the science base for medical pharmaceuticals in particular. It is not surprising we were anxious to do this, and I am very grateful you have found yourselves able to come to speak to us on this matter. Perhaps, in view of the fact you represent the company and the injured party, to some extent, you might wish to make a few opening remarks?

(*Mr Robb*) Perhaps I could, Chairman, and I will be very brief. Can I just introduce my colleague, Dr Barry. He is head of our R&D operations worldwide, and he is a medical doctor by profession and a board member of Wellcome plc. We are, as you are probably aware, a research based company and we have been hugely successful since the company was first floated in 1986. I could give you a number of dimensions of success, and I hope you have had the chance to read that in the response document. One measure which seems to have come to the forefront is share price. I would just like to say that the share price has appreciated by approximately some six times since then. It has been a pretty successful company all round. That success has continued until 1994, when we have recently published our results and shown continued growth through the more challenging times we are facing now—but we are still showing double digit growth for sales and for profits. One of the reasons why we are not terribly keen on the Glaxo offer is because it is long on cost efficiencies and short on business building activities, which is what we have been about since I became Chief Executive in 1990, trying to build Wellcome into a more successful company, a more secure company. In their document they were pretty specific in identifying that cost efficiencies were going to be pretty important. In a pharmaceutical company that has to fall into three key areas: manufacturing; R&D; and sales and marketing. These are where the big levels of employment are. It was a surprise (and I think it has been well documented in the press), and it was a surprise to me personally to find on January 23rd that the largest shareholder, the Wellcome Trust, who own about 40 per cent. of the company, had decided to get out of Wellcome. We had to convene a Board meeting, having been dealt that hand, because it is a very serious matter if there is 40 per cent. of the shares overhanging the market—we could not discharge our responsibilities to the 60 per cent. of shareholders who had an investment in the company in that sort of situation. The Board decided unanimously that we only had one course of action open to us, which was to pursue selling the business to, what we felt, was a more appropriate buyer, and that is a process we have been undergoing for about the last three or four weeks. Secondly, we felt we had

to test the market place to make sure we were discharging our responsibilities as directors of the company to maximise shareholder value. The price of £10.25 might or might not be the maximum price that the company is worth. By way of introduction that is all I have to say.

72. Thank you for that and for setting the scene in relation to this particular affair. The Committee, as I indicated, is interested in the effect of any possible takeover on the research commitment which your company has traditionally shown and, indeed, on the research commitment of the company itself; because your company, and indeed Glaxo and others, have made a huge research base here as a national asset, and the Committee is obviously concerned that that should be maintained. Do you feel that the potential takeover by Glaxo would damage the country's research effort, or is your opposition to the bid, as you indicated, based on the price offered?

(*Mr Robb*) I think I tried to indicate in my remarks that we would have preferred to have stayed an independent organisation. Being one of the top 30 companies in the country we are not exactly a financial failure in terms of our performance to date. Having been dealt the hand we were on 23 January, we felt we had no other option than to proceed as I have indicated. Damaging the research effort in the country is a difficult word for me to use unequivocally. What I can say, and what I have said, is that there will be job losses, and I do not think there is any dispute about that; and that the job losses have to fall on R&D, just as manufacturing, selling and marketing as I indicated. My colleague has much more experience of working with scientists than I have, but in all my years, either on the fringe of the pharmaceutical industry or in it, I have always found it very difficult to argue that there would be more productivity, more new medicines coming through from fewer scientists. That is not an argument I have been able to sustain, so I assume there will be more difficulty in bringing successful and innovative new medicines through to the marketplace with fewer scientists.

(*Dr Barry*) To add to what Mr Robb said, I think the numbers are fairly clear in what the consequences of job cuts would be. If you look at the overall body of science that would be involved in this particular transaction—that is the scientists at Glaxo, the scientists at Wellcome and any additional and new scientists or scientific endeavours with scientists employed that may be employed because of additional funds that the Trust might have—I think the mathematics are fairly clear. It is our understanding that the Trust believes that they would be able to generate approximately £50 million more money to put into research; but if one looks at the documents that have been in press, and documents presented to you, the cost savings needed in order to obtain the results of this synergy would be about £500 million to £1,000 million. You would be adding, at most, £50 million of research, and whatever portion of that £500 to £1,000 million was

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MR JOHN ROBB AND DR DAVID BARRY

[Continued]

[Chairman Cont]

research, any bit of it that was over £50 million would necessarily decrease the scientific investment that the entire transaction would involve.

Sir Gerard Vaughan

73. We were told earlier, at least I think we were told, that many of the redundancies, if not most of them, would be taken up by new technologies, new technological development. Do you see your research strategy as differing materially from that of Glaxo's?

(Dr Barry) I think for all major pharmaceutical companies in their R&D operations we are all very heavily involved in very advanced technology, whether it be gene therapy, monoclonal antibodies, or combinatorial chemistry; that is part and parcel of the research effort. I do not see how savings would be involved there. We are already investing in it; everyone is investing in it; and one would think in the future that everyone would need to continue to invest in it. I do not see it as a source of cost savings.

74. You are telling us, I think, that your research strategy, your new technologies, are really not totally identical but similar to those of Glaxo's?

(Dr Barry) No, what I am trying to get across, and I apologise if it was not clear, is that there are certain new very general techniques, very general, such as gene therapy, such as monoclonal antibodies, which have many, many applications, in many, many different ways, and the different companies take these new concepts, these new technologies, and apply them in different ways. We are all applying them in somewhat different ways, but there is no question we are all trying to treat the common diseases for which there is a need for new therapies, such as cancer, stroke, Alzheimer's disease and the like.

75. It is the redundancies which worried us. You have just referred to the likely redundancies, and the statement, which I think we understood, that those redundancies would be reduced because of the new technologies that the combined group would be able to deploy?

(Mr Robb) I am sure there would be some offsetting effect, which is the thrust of your question, but the scale of the redundancies which have been predicted by external independent sources like stock broker analysts are absolutely huge. That is not too strong a word. They are talking about a combined workforce of around 60,000 and probably to justify the scale of this transaction, because it is so reliant on cost synergies, the sort of redundancies could be of the order of 10 or 15,000.

Dr Jones

76. I have two questions. First of all picking up on that point, obviously there are going to be redundancies but perhaps Glaxo might argue the redundancies are going to be in IT and new development and not in research, and if they are expanding into new technologies they could actually be increasing the amount of research beyond the current expenditure. So how do you respond to that? You are assuming you take the amount of money and say that proportionately there will be an element of research, but that does not necessarily have to be the case. That is my first point. Secondly, you also heard

me asking Sir Richard the point about their claim that their proven development efficiency would shorten lead times in bringing new compounds to the market. Would you comment on that claim and also their other claim that Wellcome's research strengths, especially in anti-virals, would be further enhanced by access to Glaxo's cellular biology and molecular genetic skills?

(Dr Barry) When I look at research to bring very basic elements, organic chemicals, to be useful medicines, it involves what is commonly called development. We have many PhDs and other scientists who are involved in all of the pharmaceutical development which is required. It would take some new maths based on the number of people who are employed, to say that the technical development people might diminish but the basic research people might increase, so it would be a net no change in RD&M—research, development and medical affairs—because there is still the 10 to 15,000 people who have been quoted in the newspapers who have to come from somewhere. If you say they are not coming from RD&M, because you are getting a net flow between R&D and M, then to imagine all of those people could come from either sales or running computers or manufacturing I am not sure is realistic. In terms of the efficiency of bringing products to market, I think Wellcome based on objective external surveys has been shown to be extremely efficient, significantly more efficient than most of the other companies, including Glaxo.

77. So you disagree?

(Dr Barry) I think there have been some objective surveys which I can get copies of for the Committee. One done by the Hay Group, which is an independent evaluating group within the United States, looked at the times from what is called the IND, the investigational new drug application, to the clinical development direct to the FDA review times, and they have all been significantly shortened when done by Wellcome than when done by an average of the industry or when compared with any other industrial operation. I would be glad to hand this to you^{FN}, but I think you can see these yellow columns *here* (indicating) represent the average time of the industry in months for those two intervals which are key points in drug development. The greyish colour—I think it is grey, I am somewhat colour blind—

78. Green!

(Dr Barry)—is the time for Wellcome. You can see they are consistently lower than any of the others. For one of those development drugs there are individual companies which are listed here.

Chairman: We would be grateful to receive that information. Thank you for passing that on.

Mrs Campbell

79. In the search for a more appropriate buyer, which you told us about a moment ago, would you consider a partner which took you into the type of vertical integration which some other pharmaceutical companies have pursued, or would you see yourself seeking a partner which is of the

^{FN} See p. 18.

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MR JOHN ROBB AND DR DAVID BARRY

[Continued]

[Mrs Campbell Cont]

Glaxo type, that is research-based rather than looking at the whole gamut of medical care?

(Mr Robb) I think the likelihood is the latter. At this stage of the process we cannot rule anybody out in terms of showing an interest in the company, but the scale of this transaction is so significant, and the goodwill element is phenomenal, that it is probably only the larger pharmaceutical companies in the world which can get anywhere near justifying it.

Mr Batiste

80. Can I bring you back to a question which appeared earlier in the evidence from previous witnesses about the fact you have a number of duplicating drugs in the pipeline as compared to Glaxo, and that it would be unlikely that both would come through to the market and one would be dropped? Would the corollary of that be though that merged together there would be more available to look at all the other new possibilities there were and you would be broadening your base of activity by looking into other products, and that in fact instead of losing the scientists you would be merely redirecting them into other areas on a broader base as a merged company?

(Dr Barry) I have seen in the press and have heard the concept of duplication of effort and overlapping products, and it has been a bit of a puzzle to me. We each have about 30 or 40 drugs which are in various stages of development, from early pre-clinical up to the later stage, so the combined number of what we would call project level compounds, pre-drugs, is about 80. I know of four where there might be some argument for overlap in the therapeutic area. Two of them are in the migraine area, where they have one which is in development and we have one in development, and two are in the AIDS area. So four out of 80 projects is not a lot of overlapping and you are not going to get a lot of savings out of that. Again, if it is just redirecting people from one area to another, I think we would all be happy, but that means you would have a net zero reduction in RD&M, if that is the argument, and therefore you would have to find 10 to 15,000 people somewhere else, and for both of our operations research, development and medical affairs takes a very large proportion. So if you remove that from the synergy area then the impact on manufacturing and sales would be staggering.

Mr Powell

81. That was a very helpful and interesting answer. Members of the Committee, I am quite certain, regard Wellcome as a very, very fine company, and we are very concerned therefore that a fine company, an outstanding company, should find itself in the situation which you now find yourself in. The case for Glaxo, as I understand it, is that by merging the two together it will be possible to strip out the inefficiencies of overlap, and you have just addressed yourself to some of the research and medical overlap, although there are other areas of overlap which could be identified in administration, information technology, et cetera, et cetera. The other point which has been made to us very strongly by Glaxo is this, that if this merger proceeds it will create as a

British company, based in Britain, the largest pharmaceutical company in the world, and that research is going to be done in Britain, whereas you, seeking your white knight, are almost certainly going to have to go abroad to find a white knight who would rescue you from the British suitor. Clearly there would be many anxieties in this Committee if we felt that if you obtained a white knight it actually led to technology transfer somewhere else in the world.

(Mr Robb) Can I just answer that, and Dr Barry will no doubt elaborate on anything I have missed out? White knight is an investment banker term, it is not a term Wellcome uses. The term we have used is "a more appropriate partner". As I said at the beginning—

82. It is still a white knight, is it not?

(Mr Robb) I do not know that it is, because the company is being sold. A white knight, as I understand the description, is someone who will rescue you, and perhaps even maintain your independence. The situation has gone beyond that. We have crossed that bridge. What we are looking for is a more appropriate partner. Let me define what I mean by that, because there is a subtle but a very real difference between our definition of a more appropriate partner and Glaxo. We are saying we want to find somebody who can bring to the company strengths, business building strengths, more solid foundations than Glaxo have done. Their recent results have shown they have gone ex-growth. Their major drug is now in decline in the United States and elsewhere, even although it is two years away from patent expiry; our major drug is two years away from patent expiry in the USA, but our sales of Zovirax grew by 22 per cent. last year. There is a very real difference in the relative strengths of both companies as we sit here today. What we are looking for is somebody that will augment Wellcome's strengths by bringing their own strengths to the business, so that we will be building a much bigger business on stronger foundations, rather than the somewhat unsound foundations that an ex-growth company brings. There is not any question that there is overlap. There is no question of doubt, obviously if you have got two companies there is going to be substantial overlap. The question that is uppermost in my mind as to how much overlap you have to get rid of depends on the consideration and the cost synergies you have to go after. Obviously, if you have only got cost synergies and no revenue synergies, or very little revenue synergies, clearly the impact on job losses is a great deal more significant than if you can balance it out between both cost synergies and revenue synergies. Therefore, in my view, the more appropriate partner we are looking for is somebody who can bring revenue synergies as well as cost synergies to the transaction.

(Dr Barry) I would also add, in terms of location of research, you have to remember that the two companies together already have more than half of their research done outside the United Kingdom. It is not as if another company with another geographic location would change a balance of having about half of the sum of the research of the two companies being done in the UK. Right now it is already a tiny

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MR JOHN ROBB AND DR DAVID BARRY

[Continued

[Mr Powell Cont]

minority of the research but, nevertheless, slightly less than 50 per cent. is done within the UK.

(*Mr Robb*) It could be that a foreign company does not have a strong research base in the UK.

Mr Miller

83. Just following on that point, you say in your the paper to us that, "The consequent narrowing of the UK science base will not only have a devastating effect on those scientists who would lose their livelihood, but is likely to have an additional negative impact on those currently considering careers in biomedical sciences". Point one is that the long-term loser on that logic is Britain plc. Stepping on to your response, where you now say your Board is working to achieve a better offer, and picking up on your last point, there really are not many pharmaceutical companies that would fit that description you have just given. Are we not now stuck with a net result which will bring about a demise in science based in the UK?

(*Mr Robb*) I cannot predict what is going to happen in the next two or three weeks. This offer closes on March 8th; we have had some very interesting meetings in the last three or four weeks, and I think we have to wait until March 8th to see the final chapter on this particular story.

Dr Jones

84. I think I formed an opinion this afternoon that the bid from Glaxo was not entirely welcomed by your company or, indeed, the Trust. In view of this, do you think there should be some kind of government restraint on these kinds of takeovers and, if so, what should those be, acting in the public interest?

(*Mr Robb*) I am not a politician, and I find it very difficult to answer that particular question. I think in general terms intervention by governments is not a good thing.

Chairman

85. Sound fellow!

(*Mr Robb*) Therefore, although this bid was certainly not welcomed by us, as I think was said earlier, Wellcome is a hugely successful company. For its shareholders it has done a tremendous job over the last nine or ten years, and I think it is very sad that it should find itself in this situation. If you have a 40 per cent. shareholder who decides he wants to get out that is capitalism as expressed by the Western society in which we live.

Dr Jones: Perhaps I should have asked the Wellcome Trust that question.

Dr Williams

86. On 23 January when the bid came through you found the Wellcome Trust supported it. How much dialogue was there between you at that stage? Did you seek to change their minds about it?

(*Mr Robb*) These things happen very quickly. I arrived in my office at twenty to eight that Monday morning, 23 January, and I was informed by the Chairman and the Deputy Chairman of the Trust that this transaction had been completed, i.e. the

commitment to sell 39.5 per cent. of the company to Glaxo at a price of £10.25. There was an announcement going out to the Stock Exchange within about a quarter of an hour or twenty minutes, and Sir Richard Skyes was on his way to see me. That was the notice I got.

87. Is this the way the British national interest should be determined? You gain £50 million a year of research money through the takeover and then lose £300 million or £400 million a year from research money.

(*Mr Robb*) I am particularly sad that this has happened. I think it is a very, very unusual circumstance. We have maintained over the months and years that I have been Chief Executive a very close relationship with the Wellcome Trust, certainly closer than any other shareholder, as you might expect. The Deputy Chairman of Wellcome and myself saw the Chairman of the Wellcome Trust the preceding Tuesday to talk about other matters, and there was no intimation that this was going to happen. Maybe he did not know at that time, but all I can say is we were sufficiently close to have had a meeting the preceding week with the Chairman of the Trust.

Dr Bray

88. Whether it be Glaxo or some other company, the likelihood is that you are going to be faced with a merger situation. The record shows that in mergers the taking over company management and directors fare a great deal better than the taken over. It is very much in the interests, certainly of the employees of your company but also of the country that in the merged operation managerially, scientifically, and technically the best management does come out with the effective influence. Glaxo have talked about implementation teams. Will it be your concern to use your best endeavours to make sure that on those implementation teams the best people are members of it, including Wellcome Foundation staff as well as Glaxo staff?

(*Mr Robb*) I can answer that unequivocally, yes. I have got a huge commitment to the staff of Wellcome, 17,000 worldwide, who have served the company loyally and efficiently over the years I have had the privilege of running the company.

89. Have you had any indication from Glaxo as to what their attitude will be?

(*Mr Robb*) I had a very brief conversation with Sir Richard Skyes before I was able to convene the Board meeting to discuss this surprising development on 23 January, at which he indicated how he saw the integration of the two companies proceeding. That was only a very brief discussion. Since then the Board has agreed a slightly different strategy from talking only to Glaxo, so I have not followed up that conversation.

Chairman

90. I take it from that remark if the opportunity arose, you would wish to follow it up?

(*Mr Robb*) Yes. As I said earlier, I think the record shows that Wellcome is a hugely successful company and that means we must have a lot of good people in the company.

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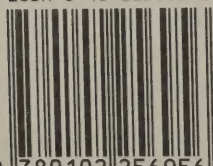
[Chairman Cont]

91. Mr Robb, Dr Barry, thank you both very much for coming in this pretty harrowing time for you and for the way in which you have not only come but answered our questions. I am sure the Committee

would wish me not just to thank you but to wish you well in your endeavours.

(Mr Robb) Thank you very much.

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